

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name	County
Audit Date	Opinion Date	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Abraham & Alfrey, P.C.</i>			Date <i>John R. K.</i>	

Shiawassee County, Michigan

FINANCIAL STATEMENTS

December 31, 2004

Shiawassee County, Michigan

December 31, 2004

BOARD OF COMMISSIONERS

James P. Capitan	Commissioner
Kim H. Van Pelt	Commissioner
Avery D. Weaver	Commissioner
Jon Michael Fuja	Commissioner
Gerald W. Cole	Commissioner
Henrietta M. Sparkes	Commissioner
Jaime F. Pavlica	Commissioner

ADMINISTRATION AND OTHER ELECTED OFFICIALS

Margaret A. McAvoy	County Coordinator
Thomas W. Dwyer	Treasurer
Lauri L. Braid	Clerk
G. Kaye Grubba	Register of Deeds
Bernard Butcher	Drain Commissioner
Randy O. Colbry	Prosecuting Attorney
R. Jon Wilson	Sheriff

Shiawassee County, Michigan

TABLE OF CONTENTS

December 31, 2004

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-ix
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	10
Statement of Cash Flows - Proprietary Funds	11-12
Statement of Net Assets - Fiduciary Funds	13
Combining Statement of Net Assets - Component Unit Funds	14-15
Statement of Activities - Component Unit Funds	16
Notes to Financial Statements	17-45
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule - Revenues and Other Financing Sources	46-48
Budgetary Comparison Schedule - Expenditures and Other Financing Uses by Activity	49-51
REVENUE SHARING RESERVE FUND	
Budgetary Comparison Schedule	52
HEALTH DEPARTMENT FUND	
Budgetary Comparison Schedule	53
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	54-59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	60-65
Combining Statement of Net Assets - Nonmajor Enterprise Funds	66
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Enterprise Funds	67
Combining Statement of Cash Flows - Nonmajor Enterprise Funds	68

Shiawassee County, Michigan

TABLE OF CONTENTS - CONTINUED

December 31, 2004

	<u>Page</u>
OTHER SUPPLEMENTARY INFORMATION - CONTINUED	
Combining Statement of Fiduciary Assets and Liabilities - Agency Funds	69-70
COMPONENT UNIT FUNDS	
DRAINAGE DISTRICTS	
Combining Balance Sheet	71-72
Reconciliation of the Combining Balance Sheet to the Statement of Net Assets	73
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	74-75
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	76
COUNTY AIRPORT	
Balance Sheet	77
Reconciliation of the Balance Sheet to the Statement of Net Assets	78
Statement of Revenues, Expenditures and Changes in Fund Balance	79
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	80
COUNCIL ON AGING	
Balance Sheet	81
Statement of Revenues, Expenditures and Changes in Fund Balance	82
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	83-85

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ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
of Shiawassee County
Corunna, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Shiawassee County, Michigan as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Shiawassee County's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Shiawassee County for the year ended December 31, 2003 were audited by other auditors whose report dated April 29, 2004, expressed an unqualified opinion on those statements.

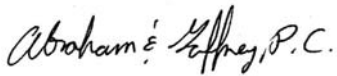
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Shiawassee County, Michigan as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 15, 2005 on our consideration of Shiawassee County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shiawassee County's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Abraham & Gaffney, P.C.".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 15, 2005

Shiawassee County

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of Shiawassee County, we offer this narrative overview and analysis of the financial activities of the County, including limited information pertaining to the separately audited Road Commission for the year ended December 31, 2004. For more detailed information, the Road Commission's separately issued financial statements may be obtained from their administrative offices.

Financial Highlights

- The assets of the County primary government exceeded its liabilities at the close of the fiscal year by approximately \$28.6 million (*net assets*). Of this amount, approximately \$16.4 million (*unrestricted net assets*) may be used to meet the government's ongoing obligations.
- The primary government's total net assets increased by approximately \$2.8 million, or 12 percent over the prior year.
- As of the close of the fiscal year, the County's governmental funds reported combined ending fund balances of approximately \$6.2 million, an increase of approximately \$2.1 million or 50 percent more than the prior year. Of this total, approximately \$5.7 million or 91 percent is *available for spending (unreserved and undesignated fund balance)*, however, the major portion of this amount (approximately \$4.9 million) is available only for the special revenue fund purposes from which these funds are derived.
- At the end of the fiscal year, unreserved and undesignated fund balance for the General Fund was approximately \$0.8 million, an amount equal to 5.2 percent of total General Fund expenditures and transfers.
- The County's total net bonded debt, including that of the component units, increased by a net of \$1,323,406 or 23.7 percent during the current fiscal year. New debt issues included \$520,000 in primary government installment purchase agreements and in the component units \$490,000 in refunding bonds by the Road Commission and \$2,361,000 in Drain bonds and notes.

Overview of the Financial Statements

The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets indicate whether the financial position of the County is improving or deteriorating. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of Shiawassee County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, public works, health and welfare, community and economic development, recreation and cultural and other functions. The business-type activities primarily represent the administration of the delinquent property tax system and the Medical Care Facility.

Shiawassee County

Management's Discussion and Analysis

The government-wide financial statements include not only the County itself (known as the *primary government*), but also four (4) legally separate entities: the Shiawassee County Road Commission, the Shiawassee County Airport, the Drainage Districts, and the Shiawassee Council on Aging. Financial information for the *component units* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 34 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Health Department, and Revenue Sharing Reserve fund, each of which is considered to be a major fund. Data from the nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General and certain special revenue funds. Budgetary comparison schedules have been provided herein to demonstrate compliance with the County General, Health Department, and Revenue Sharing Reserve funds budgets.

Proprietary funds. The County maintains one type of proprietary fund: enterprise funds. *Enterprise funds* report the same functions as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for the Tax Payment Fund and the Medical Care Facility which are considered to be major funds. Data from the nonmajor enterprise funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information, including combining statements of the nonmajor governmental and enterprise funds.

Shiawassee County

Management's Discussion and Analysis

Government-wide Financial Analysis

Statement of Net Assets

Shiawassee County's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Assets						
Current assets	\$ 19,263,166	\$ 12,284,588	\$ 18,477,879	\$ 18,970,790	\$ 37,741,045	\$ 31,255,378
Noncurrent assets	3,708,687	3,331,005	2,620,164	2,732,938	6,328,851	6,063,943
Total assets	22,971,853	15,615,593	21,098,043	21,703,728	44,069,896	37,319,321
Liabilities						
Current	11,832,189	6,293,174	3,949,939	1,445,851	15,782,128	7,739,025
Noncurrent	1,268,235	962,732	435,983	-	1,704,218	962,732
Total liabilities	13,100,424	7,255,906	4,385,922	1,445,851	17,486,346	8,701,757
Net Assets						
Invested in capital assets - net of related debt	2,843,666	2,622,224	2,620,164	2,677,566	5,463,830	5,299,790
Restricted	1,362,337	4,337,271	6,105,490	2,510,148	7,467,827	6,847,419
Unrestricted	5,665,426	1,400,192	7,986,467	15,070,163	13,651,893	16,470,355
Total net assets	\$ 9,871,429	\$ 8,359,687	\$ 16,712,121	\$ 20,257,877	\$ 26,583,550	\$ 28,617,564

As noted previously, net assets serve over time as a useful indicator of a government's financial position. In the case of Shiawassee County, assets exceeded liabilities by approximately \$28.6 million at the close of the fiscal year. This amount compares favorably with the prior year where net assets totaled \$26.6 million.

The County's net assets include approximately \$5.3 million capital assets comprised of land, buildings, vehicles and equipment less any outstanding related debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

Certain other limitations on the use of net assets apply due primarily to legal restrictions. These restricted net assets total approximately \$6.8 million. The remaining balance of unrestricted net assets (\$16.5 million or 57.6 percent) may be used to meet the government's ongoing obligations.

Comparing the amounts reported for 2004 to the prior year, the significant reduction in current liabilities reflects the phase-in of the Revenue Sharing Reserve Fund. With the implementation of this program, approximately \$2.6 million from the 2004 property tax levy that would have previously been offset by a "deferred revenue" liability (because it was not available until the subsequent year's budget), is now recognized in 2004 as revenue in the Revenue Sharing Reserve Fund. In 2004, therefore, there is no offsetting deferred revenue liability associated with this amount as there was in the prior year.

Shiawassee County

Management's Discussion and Analysis

Statement of Activities

Shiawassee County's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Revenues						
Program revenue:						
Charges for services	\$ 15,884,326	\$ 5,524,500	\$ 9,448,139	\$ 10,139,705	\$ 25,332,465	\$ 15,664,205
Operating grants and contributions	7,160,361	5,303,814	-	-	7,160,361	5,303,814
General revenues:						
Property taxes	7,162,278	10,102,916	2,672,155	3,084,234	9,834,433	13,187,150
State Revenue Sharing	1,280,423	760,083	-	-	1,280,423	760,083
Investment earnings	102,473	121,983	113,570	114,031	216,043	236,014
Miscellaneous	-	41,666	-	-	-0-	41,666
Transfers	302,020	605,000	(302,020)	(605,000)	-0-	-0-
Total revenues	31,891,881	22,459,962	11,931,844	12,732,970	43,823,725	35,192,932
Expenses						
General government	7,411,433	7,539,388	-	-	7,411,433	7,539,388
Public safety	6,401,638	5,737,801	-	-	6,401,638	5,737,801
Public works	163,892	145,135	-	-	163,892	145,135
Health and welfare	16,120,504	5,207,860	-	-	16,120,504	5,207,860
Community and Economic Development	39,000	664,172	-	-	39,000	664,172
Recreation and Cultural	854,974	170,270	-	-	854,974	170,270
Other	802,552	791,486	11,386,188	12,163,264	12,188,740	12,954,750
Total expenses	31,793,993	20,256,112	11,386,188	12,163,264	43,180,181	32,419,376
Increase in net assets	97,888	2,203,850	545,656	569,706	643,544	2,773,556
Net assets, beginning of year	9,871,463	6,155,837	16,712,121	19,688,171	26,583,584	25,844,008
Net assets, end of year	\$ 9,969,351	\$ 8,359,687	\$ 17,257,777	\$ 20,257,877	\$ 27,227,128	\$ 28,617,564

The preceding table shows that the net assets of governmental activities increased by approximately \$2.2 million or 35.8 percent during 2004 as compared to approximately \$0.1 million in the prior year. As noted above, the creation of the Revenue Sharing Reserve fund explains the major reason for this increase.

Business-type Activities

Net assets of the County's business-type activities increased by approximately \$570,000. Net assets of the Delinquent Tax Revolving fund decreased by approximately \$32,000 while net assets of the Medical Care Facility and the nonmajor enterprise funds increased by approximately \$601,000.

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Shiawassee County

Management's Discussion and Analysis

Governmental funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of approximately \$6.2 million. This represents an increase of approximately \$2.1 million in comparison with the prior year, a majority of which is explained by the first year phase-in of the new Revenue Sharing Reserve, which provides an alternative to the elimination of State Revenue Sharing for a portion of the current year and full replacement in future years.

Approximately \$5.7 million or 91.0 percent of total fund balance constitutes *unreserved and undesignated fund balance*, which is available for spending. However approximately \$4.9 million of this amount may only be used for special revenue fund purposes. The remainder of fund balance is either *reserved* to indicate that it is not available for new spending (approximately \$.2 million), or is *designated* to support capital and other projects (approximately \$.4 million).

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the total fund balance was approximately \$1.0 million, while the unreserved/undesignated fund balance of the General Fund was approximately \$.8 million, an amount equal to 5.2 percent of total General Fund expenditures. This level of General Fund unreserved/undesignated fund balance is low compared with recognized benchmarks that governments should strive to maintain.

The fund balance of the County's General Fund increased by approximately \$195,000 during the current fiscal year, and compares favorably with the approximately \$379,000 decrease in the General Fund balance reported during the prior year. This increase is largely due to the better tracking and reporting of current year receivables and revenues and controlling County expenditures.

The Revenue Sharing Reserve Fund has a total fund balance of approximately \$2.1 million. As indicated above this newly established fund, authorized by shifting forward the collection date for the County portion of the property tax levy from December to July, is intended to provide a reserve from which the County may draw amounts to replace revenues previously received from the now suspended State Revenue Sharing program. The current fund balance represents the first year of a three year phase-in that will ultimately provide deposits totaling approximately \$7.9 million to this fund. The balance in this fund is projected to be exhausted in year 2009 or 2010 at which time the County is to revert to an alternate State sponsored revenue source.

General Fund Budgetary Highlights

The original General Fund expenditure budget of \$14.8 million was approximately \$15.4 million after revisions; however, actual expenditures totaled only \$15.2 million for a net savings of approximately \$208,000 or 1.4 percent under the revised budget. Expenditure savings came from several departments and resulted primarily from reduced contractual services and some personnel positions not filled for the entire year.

Actual revenues and other financing sources came in at approximately 15.4 million or within .2 percent of the revised budget of 15.3 million. (Approximately \$50,000 was budgeted from fund balance to match revenues with expenditures.) State Revenue Sharing was less than anticipated but debt proceeds were not included in the budget, making up for future shortfall.

Capital Asset and Debt Administration

Capital Assets - At the end of 2004, the County had invested \$5,838,671 in primary government capital assets and \$1,778,209 for the component units (excluding the Road Commission, see separately issued financial statements), net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$5,904,974 for the primary government. Depreciation charges for the fiscal year totaled \$492,852 for the primary government and \$35,417 for the component units (excluding the Road Commission, see separately issued financial statements).

Shiawassee County

Management's Discussion and Analysis

	Governmental Activities	Business- type Activities	Component Units Drains	Total
Land and improvements, net	\$ 938,841	\$ 35,478	\$ -	\$ 973,319
Buildings, net	1,579,152	1,891,873	-	3,471,025
Equipment, net	240,806	750,215	-	991,021
Vehicles, net	402,206	-	-	402,206
Drains, net	-	-	1,778,209	1,778,209
Capital assets, net	<u>\$ 3,161,005</u>	<u>\$2,677,566</u>	<u>\$1,778,209</u>	<u>\$ 7,616,780</u>

Long-term Debt - As of December 31, 2004, the County had \$1,041,505 in bonds and notes outstanding for the primary government. This level of net obligation is \$149,244 less than the obligation recorded as of December 31, 2003. In addition, the County uses its full faith and credit (as a secondary obligator), to back the Drainage District and Airport component unit debt. All drain debt is payable out of assessments against the drainage districts or by contractual agreements with local units of government. The following table excludes the County Road Commission.

Outstanding Debt as of December 31, 2004:

	<u>Jan. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec. 31, 2004</u>
Primary Government				
Governmental Activities				
Bonds and Loans Payable	\$ 1,190,749	\$ 534,753	\$ 683,997	\$ 1,041,505
Component Unit				
County Airport				
Airport Note	24,059	-	5,631	18,428
Drainage Districts				
Drain Bonds and Notes	<u>3,481,836</u>	<u>2,361,000</u>	<u>761,209</u>	<u>5,081,627</u>
Total Component Units	<u>3,505,895</u>	<u>2,361,000</u>	<u>766,840</u>	<u>5,100,055</u>
Total Reporting Entity	<u>\$4,696,644</u>	<u>\$2,895,753</u>	<u>\$1,450,837</u>	<u>\$ 6,141,560</u>
Debt Limit (10% of SEV)				\$152,410,219
Available Statutory Debt Limit				\$146,268,659

Activity for the Component Units during fiscal year 2004 included a net change of \$1,599,791. This change includes the issuance of \$2,361,000 in drainage district notes.

A more detailed discussion of the County's long-term debt obligations is presented in Note H to the financial statements.

Shiawassee County

Management's Discussion and Analysis

Limitations on Debt:

State statute limits the County's debt obligations to 10 percent of the current state equalized value (SEV). The County's SEV as of December 31, 2004 was \$1.524 billion; therefore the County's debt limitation was \$152 million. The county remains well below its legal debt limit by over \$146 million.

SHIAWASSEE COUNTY GOVERNMENT ECONOMIC OUTLOOK:

- The Revenue Sharing Reserve Fund was established by the State in order to replace State Revenue Sharing payments to counties.
- The continued uncertainty over the State's budget situation may lead to decreases in other areas of State funding.
- Health and dental insurance premiums are rising much faster than the rate of inflation.
- Retirement costs are increasing due to poor stock market performance over the last several years and lower interest rates.
- For the first time in several years very little is budgeted for capital projects.

These factors were considered in adopting the Budget for 2005. The 2005 budget calls for no usage of the County's fund balance to balance the General Fund Budget. The County continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE COUNTY

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Shiawassee County Coordinator's Office at (989) 743-2458 or via email at mmcavoy@shiawassee.net.

BASIC FINANCIAL STATEMENTS

Shiawassee County, Michigan

STATEMENT OF NET ASSETS

December 31, 2004

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,556,966	\$13,080,904	\$ 16,637,870	\$ 5,155,209
Receivables	7,912,934	5,889,886	13,802,820	2,260,661
Due from other governmental units	741,763	-	741,763	1,228,253
Inventories	72,925	-	72,925	323,677
Total current assets	12,284,588	18,970,790	31,255,378	8,967,800
Noncurrent assets				
Deferred expense	-	-	-0-	195,948
Cash and cash equivalents - restricted	-	-	-0-	2,265,000
Investments	-	55,372	55,372	372,620
Advance to component unit	170,000	-	170,000	(170,000)
Capital assets, net	3,161,005	2,677,566	5,838,571	47,826,019
Total noncurrent assets	3,331,005	2,732,938	6,063,943	50,489,587
TOTAL ASSETS	15,615,593	21,703,728	37,319,321	59,457,387
LIABILITIES				
Current liabilities				
Accounts payable	427,089	411,084	838,173	118,395
Other accrued liabilities	409,422	1,034,767	1,444,189	46,476
Accrued interest payable	3,690	-	3,690	33,526
Deferred revenue	5,344,200	-	5,344,200	233,747
Current portion of compensated absences	50,273	-	50,273	69,352
Current portion of long-term debt	58,500	-	58,500	651,370
Total current liabilities	6,293,174	1,445,851	7,739,025	1,152,866
Noncurrent liabilities				
Advances from State	30,000	-	30,000	319,590
Noncurrent portion of compensated absences	452,451	-	452,451	208,057
Noncurrent portion of long-term debt	480,281	-	480,281	4,938,685
Total noncurrent liabilities	962,732	-0-	962,732	5,466,332
TOTAL LIABILITIES	7,255,906	1,445,851	8,701,757	6,619,198
NET ASSETS				
Invested in capital assets, net of related debt	2,622,224	2,677,566	5,299,790	44,519,392
Restricted for				
Public safety	995,353	-	995,353	-
Employee benefits	-	2,510,148	2,510,148	-
Capital improvement	107,969	-	107,969	3,809,223
County Roads	-	-	-0-	4,013,511
Other purposes	3,233,949	-	3,233,949	-
Unrestricted	1,400,192	15,070,163	16,470,355	496,063
TOTAL NET ASSETS	\$ 8,359,687	\$20,257,877	\$ 28,617,564	\$ 52,838,189

See accompanying notes to financial statements.

Shiawassee County, Michigan

STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

					Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	Expenses	Program Revenues			Primary Government			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 7,539,388	\$ 2,546,648	\$ 1,745,465	\$ -	\$ (3,247,275)	\$ -	\$ (3,247,275)	\$ -
Public safety	5,737,801	1,836,752	603,316	-	(3,297,733)	-	(3,297,733)	-
Public works	145,135	16,912	-	-	(128,223)	-	(128,223)	-
Health and welfare	5,207,860	1,037,838	2,950,533	-	(1,219,489)	-	(1,219,489)	-
Community and economic development	664,172	43,507	-	-	(620,665)	-	(620,665)	-
Recreation and cultural	170,270	42,843	4,500	-	(122,927)	-	(122,927)	-
Other	771,456	-	-	-	(771,456)	-	(771,456)	-
Interest on long-term debt	20,030	-	-	-	(20,030)	-	(20,030)	-
Total governmental activities	20,256,112	5,524,500	5,303,814	-	(9,427,798)	-0-	(9,427,798)	-0-
Business-type activities								
Delinquent tax	-	529,220	-	-	-	529,220	529,220	-
Medical Care Facility	12,134,440	9,570,900	-	-	-	(2,563,540)	(2,563,540)	-
Other	28,824	39,585	-	-	-	10,761	10,761	-
Total business-type activities	12,163,264	10,139,705	-0-	-0-	-0-	(2,023,559)	(2,023,559)	-0-
Total primary government	<u>\$ 32,419,376</u>	<u>\$ 15,664,205</u>	<u>\$ 5,303,814</u>	<u>\$ -0-</u>	(9,427,798)	(2,023,559)	(11,451,357)	-0-
Component units								
Road Commission	\$ 9,859,302	\$ 1,334,134	\$ 7,988,811	\$ 1,691,662	-	-	-0-	1,155,305
Drain Commission	607,855	782	-	603,636	-	-	-0-	(3,437)
County Airport	80,913	43,563	22,496	-	-	-	-0-	(14,854)
Council on Aging	843,186	61,471	433,280	48,462	-	-	-0-	(299,973)
Total component units	<u>\$ 11,391,256</u>	<u>\$ 1,439,950</u>	<u>\$ 8,444,587</u>	<u>\$ 2,343,760</u>	-0-	-0-	-0-	837,041
General revenues								
Property taxes					10,102,916	3,084,234	13,187,150	233,689
State shared revenue					760,083	-	760,083	-
Investment earnings					121,983	114,031	236,014	46,650
Gain on equipment disposal					-	-	-0-	65,150
Miscellaneous					41,666	-	41,666	-
Transfers					605,000	(605,000)	-0-	-
Total general revenues and transfers					11,631,648	2,593,265	14,224,913	345,489
Change in net assets					2,203,850	569,706	2,773,556	1,182,530
Restated net assets, beginning of the year					6,254,814	16,716,174	22,970,988	51,277,295
Prior period adjustments					(98,977)	2,971,997	2,873,020	378,364
Net assets, end of the year					\$ 8,359,687	\$ 20,257,877	\$ 28,617,564	\$ 52,838,189

See accompanying notes to financial statements.

Shiawassee County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2004

	General	Revenue Sharing Reserve
ASSETS		
Cash and cash equivalents	\$ 615,225	\$ -
Receivables		
Taxes	4,808,603	2,635,638
Accounts	26,128	-
Inventories	-	-
Due from other funds	558,468	-
Due from other governmental units		
Federal/State	603,602	-
Advance to component unit	170,000	-
TOTAL ASSETS	\$ 6,782,026	\$ 2,635,638
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 217,168	\$ -
Accrued liabilities	332,043	-
Due to other funds	-	543,570
Deferred revenue	5,271,275	-
Advances from other governmental units	-	-
TOTAL LIABILITIES	5,820,486	543,570
FUND BALANCES		
Reserved for		
Advances to component units	170,000	-
Park outlay	3,728	-
Unreserved		
Designated for capital improvement	-	-
Undesignated, reported in		
General fund	787,812	-
Special revenue funds	-	2,092,068
TOTAL FUND BALANCES	961,540	2,092,068
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,782,026	\$ 2,635,638

See accompanying notes to financial statements.

Health Department	Nonmajor Governmental Funds	Total Governmental Funds
\$ 256,146	\$ 2,685,595	\$ 3,556,966
-	-	7,444,241
378,515	64,050	468,693
72,925	-	72,925
-	66,483	624,951
34,885	103,276	741,763
-	-	170,000
<u>\$ 742,471</u>	<u>\$ 2,919,404</u>	<u>\$ 13,079,539</u>

\$ 146,667	\$ 63,254	\$ 427,089
43,510	33,869	409,422
14,898	66,483	624,951
86,507	-	5,357,782
-	30,000	30,000

291,582	193,606	6,849,244
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-	-	170,000
-	-	3,728
-	383,969	383,969
-	-	787,812
450,889	2,341,829	4,884,786

450,889	2,725,798	6,230,295
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<u>\$ 742,471</u>	<u>\$ 2,919,404</u>	<u>\$ 13,079,539</u>
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Shiawassee County, Michigan

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2004

Total fund balance - governmental funds \$ 6,230,295

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 6,069,800	
Accumulated depreciation is	<u>(2,908,795)</u>	
Capital assets, net		3,161,005

Long-term assets are not available to pay for current period expenditures
and are therefore deferred in the funds. These consist of:

Deferred revenue		13,582
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Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Direct County obligations	538,781	
Accrued interest payable	3,690	
Compensated absences	<u>502,724</u>	
		<u>(1,045,195)</u>

Net assets of governmental activities \$ 8,359,687

See accompanying notes to financial statements.

Shiawassee County, Michigan

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	General	Revenue Sharing Reserve
REVENUES		
Taxes	\$ 7,467,432	\$ 2,635,638
Licenses and permits	98,431	-
Intergovernmental	2,941,222	-
Charges for services	2,734,423	-
Fines and forfeits	243,069	-
Interest and rents	131,480	-
Other	80,965	-
TOTAL REVENUES	13,697,022	2,635,638
EXPENDITURES		
Current		
General government	7,481,303	-
Public safety	4,771,408	-
Public works	133,903	-
Health and welfare	572,012	-
Community and economic development	163,634	-
Recreation and cultural	9,209	-
Other	771,456	-
Capital outlay	3,123	-
Debt service	431,069	-
TOTAL EXPENDITURES	14,337,117	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(640,095)	2,635,638
OTHER FINANCING SOURCES (USES)		
Operating transfers in	1,237,026	-
Operating transfers out	(822,021)	(543,570)
Debt proceeds	420,000	-
TOTAL OTHER FINANCING SOURCES (USES)	835,005	(543,570)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	194,910	2,092,068
Fund balances, beginning of year	766,630	-
Prior period adjustments	-	-
Fund balances, end of year	\$ 961,540	\$ 2,092,068

See accompanying notes to financial statements.

Health Department	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 10,103,070
179,542	-	277,973
2,191,625	737,585	5,870,432
341,220	1,558,974	4,634,617
-	41,505	284,574
-	18,225	149,705
-	440,044	521,009
2,712,387	2,796,333	21,841,380
-	151,362	7,632,665
-	962,168	5,733,576
-	-	133,903
3,020,144	1,536,812	5,128,968
-	500,538	664,172
-	143,229	152,438
-	-	771,456
-	84,031	87,154
31,078	119,348	581,495
3,051,222	3,497,488	20,885,827
(338,835)	(701,155)	955,553
297,368	699,589	2,233,983
-	(263,392)	(1,628,983)
14,753	100,000	534,753
312,121	536,197	1,139,753
(26,714)	(164,958)	2,095,306
500,271	2,890,756	4,157,657
(22,668)	-	(22,668)
\$ 450,889	\$ 2,725,798	\$ 6,230,295

Shiawassee County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Net change in fund balances - total governmental funds **\$ 2,095,306**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 132,792	
Depreciation expense	<u>(156,636)</u>	
Excess of capital outlay over depreciation expense		(23,844)

In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of capital assets sold. (28,800)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred revenue		13,582
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirements	563,103	
Bond proceeds	<u>(534,753)</u>	
		28,350

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(1,638)	
Decrease in accrued compensated absences	<u>120,894</u>	
		<u>119,256</u>

Change in net assets of governmental activities		<u>\$ 2,203,850</u>
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See accompanying notes to financial statements.

Shiawassee County, Michigan

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2004

	Business-type Activities			
	Delinquent Tax Revolving	Medical Care Facility	Nonmajor Enterprise Funds	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 5,953,109	\$ 7,040,691	\$ 87,104	\$13,080,904
Accounts receivable	-	1,248,505	-	1,248,505
Taxes receivable	-	2,905,823	-	2,905,823
Delinquent taxes receivable	1,735,558	-	-	1,735,558
Total current assets	7,688,667	11,195,019	87,104	18,970,790
Noncurrent assets				
Investments	55,372	-	-	55,372
Capital assets, net	-	2,674,291	3,275	2,677,566
Total noncurrent assets	55,372	2,674,291	3,275	2,732,938
TOTAL ASSETS	7,744,039	13,869,310	90,379	21,703,728
LIABILITIES				
Current liabilities				
Accounts payable	20,355	389,399	1,330	411,084
Accrued liabilities	125,375	909,392	-	1,034,767
TOTAL LIABILITIES	145,730	1,298,791	1,330	1,445,851
NET ASSETS				
Invested in capital assets	-	2,674,291	3,275	2,677,566
Restricted for employee benefits	-	2,510,148	-	2,510,148
Unrestricted	7,598,309	7,386,080	85,774	15,070,163
TOTAL NET ASSETS	<u>\$ 7,598,309</u>	<u>\$ 12,570,519</u>	<u>\$ 89,049</u>	<u>\$20,257,877</u>

See accompanying notes to financial statements.

Shiawassee County, Michigan

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2004

	Business-type Activities			
	Delinquent Tax Revolving	Medical Care Facility	Nonmajor Enterprise Funds	Total
OPERATING REVENUES				
Interest and penalties on delinquent taxes	\$ 529,220	\$ -	\$ -	\$ 529,220
Charges for services	-	9,570,900	39,585	9,610,485
TOTAL OPERATING REVENUES	529,220	9,570,900	39,585	10,139,705
OPERATING EXPENSES				
Personal services and fringes	-	8,894,695	-	8,894,695
Operating supplies	-	744,493	28,572	773,065
Contracted services	-	1,299,144	-	1,299,144
Depreciation	-	335,964	252	336,216
Miscellaneous	-	860,144	-	860,144
TOTAL OPERATING EXPENSES	-0-	12,134,440	28,824	12,163,264
OPERATING INCOME (LOSS)	529,220	(2,563,540)	10,761	(2,023,559)
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental transfers in	-	1,117,034	-	1,117,034
Intergovernmental transfers (out)	-	(1,117,034)	-	(1,117,034)
Interest revenue	43,951	70,080	-	114,031
Property taxes	-	3,084,234	-	3,084,234
TOTAL NONOPERATING REVENUES (EXPENSES)	43,951	3,154,314	-0-	3,198,265
INCOME BEFORE TRANSFERS	573,171	590,774	10,761	1,174,706
TRANSFERS (OUT)	(605,000)	-	-	(605,000)
CHANGE IN NET ASSETS	(31,829)	590,774	10,761	569,706
Net assets, beginning of year	7,630,138	9,081,983	4,053	16,716,174
Prior period adjustments	-	2,897,762	74,235	2,971,997
Net assets, end of year	<u>\$ 7,598,309</u>	<u>\$ 12,570,519</u>	<u>\$ 89,049</u>	<u>\$ 20,257,877</u>

See accompanying notes to financial statements.

Shiawassee County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2004

	Business-type Activities			
	Delinquent Tax Revolving	Medical Care Facility	Nonmajor Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 582,056	\$ 9,163,306	\$ 39,585	\$ 9,784,947
Cash paid to suppliers	20,355	(2,639,632)	(27,242)	(2,646,519)
Cash paid for employees	-	(9,080,152)	-	(9,080,152)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	602,411	(2,556,478)	12,343	(1,941,724)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Capital purchases	-	(394,189)	(3,527)	(397,716)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Property taxes	-	3,084,234	-	3,084,234
Transfers out	(605,000)	-	-	(605,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(605,000)	3,084,234	-0-	2,479,234
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest revenue	43,951	70,080	-	114,031
NET INCREASE IN CASH AND CASH EQUIVALENTS	41,362	203,647	8,816	253,825
Restated cash and cash equivalents, beginning of year	5,911,747	6,837,044	78,288	12,827,079
Cash and cash equivalents, end of year	<u>\$ 5,953,109</u>	<u>\$ 7,040,691</u>	<u>\$ 87,104</u>	<u>\$ 13,080,904</u>

See accompanying notes to financial statements.

Shiawassee County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2003

	Business-type Activities			
	Delinquent Tax Revolving	Medical Care Facility	Nonmajor Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 529,220	\$ (2,563,540)	\$ 10,761	\$ (2,023,559)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	-	335,964	252	336,216
(Increase) decrease in receivables	52,836	(407,594)	-	(354,758)
Decrease in prepaids	-	142,686	-	142,686
Increase in accounts payable	20,355	121,463	1,330	143,148
(Decrease) in accrued liabilities	-	(185,457)	-	(185,457)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 602,411</u>	<u>\$ (2,556,478)</u>	<u>\$ 12,343</u>	<u>\$ (1,941,724)</u>

Shiawassee County, Michigan

Fiduciary Funds

STATEMENT OF NET ASSETS

December 31, 2004

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 1,316,177</u>
LIABILITIES	
Undistributed collections payable	\$ 295,577
Due to other governmental units	
Federal/State	252,852
Local	470,283
Due to individuals and agencies	<u>297,465</u>
TOTAL LIABILITIES	<u>\$ 1,316,177</u>

See accompanying notes to financial statements.

Shiawassee County, Michigan

Component Unit Funds

COMBINING STATEMENT OF NET ASSETS

December 31, 2004

	Road Commission	Drainage Districts	County Airport
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,964,691	\$ 1,796,781	\$ 144,342
Receivables			
Accounts	-	-	2,282
Taxes	-	-	-
Special assessments	-	2,039,161	-
Due from other governmental units	1,192,243	-	-
Inventories	323,677	-	-
Total current assets	4,480,611	3,835,942	146,624
Noncurrent assets			
Deferred expense	-	195,948	-
Cash and cash equivalents - restricted	-	2,265,000	-
Investments	227,600	-	-
Capital assets, net	46,047,810	1,778,209	-
Total noncurrent assets	46,275,410	4,239,157	-0-
TOTAL ASSETS	50,756,021	8,075,099	146,624
LIABILITIES			
Current liabilities			
Accounts payable	47,618	23,431	855
Other accrued liabilities	45,793	-	683
Accrued interest payable	4,290	29,236	-
Deferred revenue	-	-	-
Current portion of compensated absences	69,352	-	-
Current portion of long-term debt	10,000	635,409	5,961
Total current liabilities	177,053	688,076	7,499
Noncurrent liabilities			
Advances from primary government	-	170,000	-
Advances from State	319,590	-	-
Noncurrent portion of compensated absences	208,057	-	-
Noncurrent portion of long-term debt	480,000	4,446,218	12,467
Total noncurrent liabilities	1,007,647	4,616,218	12,467
TOTAL LIABILITIES	1,184,700	5,304,294	19,966
NET ASSETS			
Invested in capital assets, net of related debt	45,557,810	(1,038,418)	-
Restricted for County Roads	4,013,511	-	-
Restricted for capital improvement	-	3,809,223	-
Unrestricted	-	-	126,658
TOTAL NET ASSETS	\$ 49,571,321	\$ 2,770,805	\$ 126,658

See accompanying notes to financial statements.

Council on Aging	Total Component Units
\$ 249,395	\$ 5,155,209
-	2,282
219,218	219,218
-	2,039,161
36,010	1,228,253
-	323,677
504,623	8,967,800
-	195,948
-	2,265,000
145,020	372,620
-	47,826,019
145,020	50,659,587
649,643	59,627,387
46,491	118,395
-	46,476
-	33,526
233,747	233,747
-	69,352
-	651,370
280,238	1,152,866
-	170,000
-	319,590
-	208,057
-	4,938,685
-0-	5,636,332
280,238	6,789,198
-	44,519,392
-	4,013,511
-	3,809,223
369,405	496,063
\$ 369,405	\$ 52,838,189

Shiawassee County, Michigan

Component Unit Funds

STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Road Commission	\$ 9,859,302	\$ 1,334,134	\$ 7,988,811	\$ 1,691,662	\$ 1,155,305
Drainage Districts	607,855	782	-	603,636	(3,437)
County Airport	80,913	43,563	22,496	-	(14,854)
Council on Aging	843,186	61,471	433,280	48,462	(299,973)
TOTALS	\$ 11,391,256	\$ 1,439,950	\$ 8,444,587	\$ 2,343,760	837,041
General revenues					
Investment earnings					46,650
Taxes					233,689
Gain on equipment disposal					65,150
Total general revenues					345,489
CHANGE IN NET ASSETS					1,182,530
Net assets, beginning of year					51,277,295
Prior period adjustments					378,364
Net assets, end of year					\$ 52,838,189

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County of Shiawassee, Michigan was incorporated in 1822 and covers an area of approximately 551 square miles with the County seat located in the City of Corunna. The County operates under an elected Board of Commissioners and provides services to its more than 72,000 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

The financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to County governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present the financial activities of Shiawassee County (primary government) and its component units, except as noted below. The component units described in Sections 2 and 3 below should be included in the County's reporting entity because of the significance of their operational or financial relationship with the County. Blended component units, although legally separate entities are in substance, part of the County's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County.

2. Blended Component Units

The Shiawassee County Building Authority is governed by a three (3) member Board appointed by the County Board of Commissioners. Its sole purpose is to finance and construct the County's public buildings. It is reported in the Debt Service fund category.

The Shiawassee County Economic Development Corporation (EDC) was established to provide community and economic development services. The EDC administered a significant amount of economic development grant money that was received by the County.

3. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, Shiawassee County remains financially accountable for these entities, or the nature and significance of the relationship between these entities and Shiawassee County is such that exclusion of these entities would render the financial statements misleading or incomplete.

The Shiawassee County Road Commission is responsible for the maintenance and construction of the County road system. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, Federal financial assistance, and contributions from other local government units within the County. The three (3) Board Members of the Road Commission are elected. This component unit is audited individually and complete financial statements may be obtained from the Road Commission's administrative office.

The Shiawassee County Council on Aging is a non-profit corporation responsible for planning and coordinating services for senior citizens. The Board is composed of fifteen (15) members, of which two (2) are County Commissioners.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Units - continued

The Shiawassee County Drainage Districts comes under the jurisdiction of the Shiawassee County Drain Commissioner. This includes planning, developing, and maintaining surface water drainage systems. A complete file of finance, construction, and maintenance is maintained for each of the drains. The Drain Commissioner has authority to spend up to \$2,500 per mile on drain maintenance and may borrow up to \$300,000 from any source to provide for maintenance of a drain without Board of Commissioner approval and without going through the Municipal Finance Division, State of Michigan. The Drain Commissioner has authority to levy special assessments on properties benefiting from maintenance. The Drainage Districts are financially accountable to the County because bond issuances greater than \$300,000 require County authorization and are backed by the full faith and credit of the County.

The County Airport is classified as a joint venture with another governmental unit. The details related to this joint venture agreement are disclosed below.

4. Joint Ventures

The County participates in the following activities, which are considered to be joint ventures in relation to the County due to the formation of an organization by contractual agreement between two (2) or more participants that maintain joint control, financial interest, and financial responsibility.

Airport Board - Shiawassee County, along with the Cities of Owosso and Corunna and Owosso and Caledonia Townships have entered into an agreement which created the Shiawassee Airport Board. The Airport Board is composed of one (1) member from each of the member municipalities. The Airport is expected to be self-sufficient but based on a "10 Year Funding Model" approved by the Board of each participating municipality shall make a direct appropriation to cover operations and development costs. The percentage share for the funding model for each municipality is Shiawassee County and the City of Owosso 33%, Owosso and Caledonia Townships 13%, and the City of Corunna 8%.

The financial activities of the Airport Board are reported in the County's audited financial statements as a discretely presented component unit due to the County being responsible for the receipt and disbursement of the Board's funds.

5. Jointly Governed Organizations

The County participates in the following activities which are considered to be jointly governed organizations in relation to the County due to there being no on-going financial interest or responsibility.

Genesee-Lapeer-Shiawassee Planning Commission - Shiawassee County, in conjunction with two (2) other Counties, has entered into an agreement which created the Genesee-Lapeer-Shiawassee Planning Commission. This organization's Board is composed of 16 members, of which one (1) is appointed by Shiawassee County. The County has no ongoing financial responsibility.

Genesee-Shiawassee Workforce Development Board - Shiawassee County, in conjunction with two (2) other Counties, has entered into an agreement which created the Genesee-Shiawassee Workforce Development Board. This organization's Board is composed of 35 members, of which five (5) are appointed by Shiawassee County. The County has no ongoing financial responsibility other than the potential liability related to inappropriate use of funds.

Valley Area Agency on Aging - Shiawassee County, in conjunction with the counties of Lapeer and Genesee and the City of Flint, which administers grant revenue for the Shiawassee Council on Aging, created the Valley Area Agency on Aging. The Board is composed of 21 members of which five (5) are appointed by Shiawassee County. The County has no ongoing financial responsibility. The Organization provides comprehensive services to senior citizens residing in the member counties.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Related Organizations

The Shiawassee County Community Mental Health Authority - The Shiawassee County Community Mental Health Authority operates under the provisions of PA 258 of 1974, as amended. The Authority provides funding for services in the area of mental illness, development disabilities, and other related mental health needs for the residents of the County of Shiawassee. For the year ended December 31, 2004, the County's contribution to Mental Health Services was \$200,000.

7. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the County's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the County are:

- a. The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Revenue Sharing Reserve Fund was established to account for the shift of State Revenue Sharing dollars from State to local funding.
- c. The Health Department Fund is used to report activities related to various personal and environmental health services provided to County residents. These activities are financed primarily by Federal and State grants, user charges, and other local revenues.
- d. The Delinquent Tax Fund accounts for money advanced by the County to other local taxing units and various county funds to pay for their delinquent real property taxes. Revenues are generated by the collection of the delinquent real property taxes, penalties, and interest.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

- e. The Medical Care Facility Fund is used to report activities related to providing long-term care services to the County residents. These activities are financed primarily through user charges (Medicaid, Medicare, private, etc.).

8. Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary funds since assets equal liabilities.

9. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Cash and Cash Equivalents

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the County's investments. Cash equivalents consist of temporary investments in certificates of deposit, commercial paper, and U.S. Government Securities with a maturity from date of purchase of 90 days or less.

11. Cash and Cash Equivalents - Restricted

The Drainage Districts (Component Unit) Fund has restricted cash and cash equivalents that represent unspent bond proceeds that are limited as to use for future capital improvements.

12. Investments

Investments during the year consisted of certificates of deposit and U.S. Government Securities with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

13. Receivables

Receivables consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

14. Inventories

Inventories are stated at cost on a first in/first out basis. Inventory consists of vaccines received from the State of Michigan. Vaccine inventory on hand at year-end have been reported as deferred revenue.

Inventories of road material and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

15. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$1,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	30 - 50 years
Equipment	3 - 7 years
Vehicles	3 - 5 years
Drain infrastructure	60 years

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Capital Assets - continued

ROAD COMMISSION - COMPONENT UNIT

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items) are reported in the road commission (component unit) operating fund in the government-wide financial statements. Capital assets are defined by Shiawassee County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. During 2004, the Shiawassee County Road Commission has capitalized the current year's infrastructure and has also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending June 30, 1980.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road equipment	5 - 8 years
Shop equipment	10 years
Engineering equipment	4 - 10 years
Office equipment	4 - 10 years
Infrastructure - roads	5 - 30 years
Infrastructure - bridges	12 - 50 years

16. Advances to Other Funds/Component Units

Long-term advances from certain funds to other funds or component units are made to finance new activities during their initial operations and to finance capital acquisitions. For the governmental fund types, fund balance is reserved for the amount of advances made to other funds to reflect the fund balance not currently available for expenditure.

17. Interfund Transactions

During the course of normal operations the County has numerous transactions between funds and component units including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

18. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Long-Term Obligations - continued

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

19. Accrued Compensated Absences

In accordance with County personnel policies and/or contracts negotiated with the various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused compensated absences under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested compensated absences earned as of December 31, 2004, including related payroll taxes, are recorded in the government-wide financial statements.

20. Deferred Revenue

Deferred revenue recorded in the General Fund consists of the 2004 tax levy that was levied in 2004 and will be collected in 2004 and is not available for current year expenditures. Drainage Districts consists of amounts related to long-term special assessment tax receivables recorded at the fund level that are not available to finance current period expenditures and are therefore deferred. Health department deferred revenue offsets the value of vaccine inventory on hand.

21. Budgets and Budgetary Accounting

Budgets are to be adopted on a basis consistent with the modified accrual basis used to reflect actual results in the Fund financial statements. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are to be adopted for all required governmental fund types.

The County employs the following procedures in establishing budgets:

- a. Prior to September 7, the County departments, in conjunction with the Coordinator's office, prepare and submit their proposed operating budgets to the finance committee for the fiscal year commencing the following January 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is held to obtain taxpayers' comments.
- c. Prior to December 31, the budgets are legally enacted through passage of an annual budget resolution.
- d. The budgets are legally adopted at the activity level for the General fund and the fund level for the Special Revenue funds. Budgetary transfers between funds and amendments to total fund budgets are not permitted without Board approval. For control purposes, all funds' budgets are maintained at the activity and account level. The Coordinator is authorized to transfer budget amounts between accounts.
- e. The County does not employ encumbrance accounting as an extension of formula budgetary integration in the governmental funds. All unexpended appropriations lapse at year-end.
- f. Applicable budgeted amounts are reported as originally adopted or as amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations that were adopted.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**22. Comparative Data**

Comparative data for the year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

23. Federal Programs

Federal Programs are accounted for in the funds to which the programs pertain. The County has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit Reports and financial data will be issued under separate cover as supplementary information to the financial statements.

NOTE B: POOLING OF CASH AND INVESTMENTS AND CASH OVERDRAFT

The County utilizes pooled cash accounts for approximately thirty-five (35) funds. Cash overdrafts of individual funds as of December 31, 2004, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
Friend of the Court	\$(213,161)	\$ 597,449	\$ 384,288
Child Care - Probate	(1,005)	1,921	916
TOTAL PRIMARY GOVERNMENT	<u>\$(214,166)</u>	<u>\$ 599,370</u>	<u>\$ 385,204</u>

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The County utilizes various pooled cash accounts and investments for approximately thirty-five (35) funds. The County's pooled cash accounts consist of a common checking and money market accounts.

The County's pooled cash accounts and investments are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Enterprise Funds, Trust and Agency Funds, and the Component Unit funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption on the applicable balance sheet or statement of net assets.

The other funds of the County utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit, mutual funds, commercial paper, and U.S. Government Securities are held separately by several of the County's funds.

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

- a. Bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. United States government or Federal agency obligation repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of December 31, 2004, the carrying amounts and bank balance for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 7,804,023	\$ 8,036,795
Savings accounts	8,440,932	8,440,929
Certificates of deposit	<u>424,416</u>	<u>424,416</u>
Total primary government	16,669,371	16,902,140
COMPONENT UNITS		
Checking	3,578,011	4,206,908
Savings	3,840,698	3,839,196
Certificates of deposit	<u>227,600</u>	<u>227,600</u>
Total component units	7,646,309	8,273,704
FIDUCIARY FUNDS		
Checking	1,253,450	1,272,926
Savings	<u>62,727</u>	<u>62,727</u>
Total fiduciary funds	<u>1,316,177</u>	<u>1,335,653</u>
TOTAL REPORTING ENTITY	<u>\$25,631,857</u>	<u>\$26,511,497</u>

Deposits of the County are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the County. As of December 31, 2004, the primary government and component unit accounts were insured by the FDIC or FSLIC for \$958,020 and the amount of \$25,553,477 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Shiawassee County, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

As of December 31, 2004 the carrying amounts and market values for each investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Component Units		
Insured or registered for which the securities are held by the County's agent in the County's name -		
Commercial Paper	\$ 45,905	\$ 45,905
Federal National Mortgage Association	990	990
Federal Home Loan Mortgage	<u>98,125</u>	<u>98,125</u>
	<u>\$ 145,020</u>	<u>\$ 145,020</u>

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2004:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$16,637,870	\$ 5,155,209	\$ 1,316,177	\$23,109,256
Cash and cash equivalents - restricted	-	2,265,000	-	2,265,000
Investments	<u>55,372</u>	<u>372,620</u>	<u>-</u>	<u>427,992</u>
	<u>\$16,693,242</u>	<u>\$ 7,792,829</u>	<u>\$ 1,316,177</u>	<u>\$25,802,248</u>

The primary government cash and cash equivalents caption on the combined balance sheet include \$23,871 in imprest cash. The component unit cash and cash equivalents caption include \$1,500 of imprest cash.

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental and internal service funds, enterprise funds, and component units have been eliminated.

Transfers to General Fund from:	
Revenue Sharing Reserve fund	\$ 543,570
Delinquent Tax fund	605,000
Nonmajor governmental funds	<u>88,456</u>
Total transfers to general fund from other funds	<u>\$ 1,237,026</u>
Transfer to Health Department fund from:	
General Fund	<u>\$ 297,368</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 524,653
Nonmajor governmental funds	<u>174,936</u>
Total transfers to nonmajor governmental funds	<u>\$ 699,589</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables related to the primary government at December 31, 2004:

Due to General Fund from:	
Revenue Sharing Reserve fund	\$ 543,570
Health Department fund	<u>14,898</u>
	<u>\$ 558,468</u>
Due to nonmajor governmental funds from:	
Nonmajor governmental funds	<u>\$ 66,483</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: ADVANCES RECEIVABLE AND PAYABLE

The following schedule details advances receivable and payable between the primary government and component unit at December 31, 2004:

Advance from General Fund to:	
Component unit - Drainage Districts	<u>\$ 170,000</u>

The advances from the General Fund to Drainage Districts were made for working capital.

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

Primary Government

	Restated Balance <u>Jan. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2004</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 540,000	\$ -	\$ -	\$ 540,000
Capital assets being depreciated				
Land improvements	442,170	-	-	442,170
Building and improvements	3,413,813	-	-	3,413,813
Office and computer equipment	963,825	60,675	-	1,024,500
Vehicles	<u>631,200</u>	<u>72,117</u>	<u>(54,000)</u>	<u>649,317</u>
Subtotal	5,451,008	132,792	(54,000)	5,529,800

Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE G: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Restated Balance Jan. 1, 2004	Additions	Deletions	Balance Dec. 31, 2004
Governmental activities				
Less accumulated depreciation				
Land improvements	\$(31,233)	\$(12,096)	\$ -	\$(43,329)
Building and improvements	(1,774,056)	(60,605)	-	(1,834,661)
Office and computer equipment	(741,879)	(41,815)	-	(783,694)
Vehicles	(230,191)	(42,120)	25,200	(247,111)
Subtotal	(2,777,359)	(156,636)	25,200	(2,908,795)
Net capital assets being depreciated	2,673,649	(23,844)	(28,800)	2,621,005
Capital assets, net	\$ 3,213,649	\$(23,844)	\$(28,800)	\$ 3,161,005
Business-type activities				
Capital assets being depreciated				
Land improvements	\$ 80,446	\$ 17,545	\$ -	\$ 97,991
Buildings and improvements	3,784,122	91,061	(6,527)	3,868,656
Office and computer equipment	1,429,353	289,110	(11,375)	1,707,088
Subtotal	5,293,921	397,716	(17,902)	5,673,735
Less accumulated depreciation				
Land improvements	(56,034)	(6,479)	-	(62,513)
Buildings and improvements	(1,792,641)	(188,061)	3,919	(1,976,783)
Office and computer equipment	(824,304)	(141,676)	9,107	(956,873)
Subtotal	(2,672,979)	(336,216)	13,026	(2,996,179)
Capital assets, net	\$ 2,620,942	\$ 61,500	\$(4,876)	\$ 2,677,566

Depreciation expense was charged to activities of the primary government as follows:

Governmental Activities	
General government	\$ 52,435
Public safety	672
Health and welfare	85,697
Recreation and culture	17,832
	156,636
Business-type Activities	
Medical Care Facility	335,964
Jail Commissary	252
	336,216
	\$ 492,852

Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE G: CAPITAL ASSETS - CONTINUED

	Restated Balance <u>Jan. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2004</u>
Component Units				
Component Unit - Road Commission				
Capital assets not being depreciated				
Land	\$ 408,714	\$ 42,134	\$(227,600)	\$ 223,248
Land improvements	<u>4,095,856</u>	<u>119,333</u>	<u>(205,573)</u>	<u>4,009,616</u>
Subtotal	4,504,570	161,467	(433,173)	4,232,864
Capital assets being depreciated				
Buildings and improvements	2,078,193	-	-	2,078,193
Machinery and equipment	5,554,333	1,144,579	(581,613)	6,117,299
Office and computer equipment	155,843	-	-	155,843
Infrastructure-roads	47,967,905	3,183,758	(3,052,531)	48,099,132
Infrastructure-bridges	13,971,447	525,242	-	14,496,689
Depletable assets	<u>153,402</u>	<u>-</u>	<u>-</u>	<u>153,402</u>
Subtotal	69,881,123	4,853,579	(3,634,144)	71,100,558
Less accumulated depreciation				
Buildings and improvements	(686,559)	(49,808)	-	(736,367)
Machinery and equipment	(4,146,746)	(621,090)	458,126	(4,309,710)
Office and computer equipment	(134,079)	(7,109)	-	(141,188)
Infrastructure-roads	(20,757,540)	(2,902,417)	3,052,531	(20,607,426)
Infrastructure-bridges	(3,037,739)	(299,780)	-	(3,337,519)
Depletable assets	<u>(153,402)</u>	<u>(-)</u>	<u>-</u>	<u>(153,402)</u>
Subtotal	<u>(28,916,065)</u>	<u>(3,880,204)</u>	<u>3,510,657</u>	<u>(29,285,612)</u>
Net capital assets being depreciated	<u>40,965,058</u>	<u>973,375</u>	<u>(123,487)</u>	<u>41,814,946</u>
Capital assets, net	<u>\$ 45,469,628</u>	<u>\$ 1,134,842</u>	<u>\$(556,660)</u>	<u>\$ 46,047,810</u>
Component Unit - Drainage Districts				
Capital assets being depreciated				
Infrastructure - drains	\$ 2,125,000	\$ -	\$ -	\$ 2,125,000
Less accumulated depreciation				
Infrastructure - drains	<u>(311,374)</u>	<u>(35,417)</u>	<u>-</u>	<u>(346,791)</u>
Capital assets, net	<u>\$ 1,813,626</u>	<u>\$(35,417)</u>	<u>\$ -0-</u>	<u>\$ 1,778,209</u>

Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE H: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the County for the year ended December 31, 2004:

	Balance Jan. 1, 2004	Additions	Deletions	Balance Dec. 31, 2004	Amount Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
1990 General Obligation Bonds	\$ 115,000	\$ -	\$ 115,000	\$ -0-	\$ -
Land Contract	420,000	-	420,000	-0-	-
Installment Purchase Agreements	-	520,000	-	520,000	47,219
Capital Leases	32,131	14,753	28,103	18,781	11,281
Accrued compensated absences	623,618	-	120,894	502,724	50,273
TOTAL PRIMARY GOVERNMENT	1,190,749	534,753	683,997	1,041,505	108,773
COMPONENT UNITS					
Road Commission					
1992 MMBA Transportation Fund Bonds	610,000	-	610,000	-0-	-
2004 MTF Refunding Bonds	-	490,000	-	490,000	10,000
Accrued compensated absences	278,919	-	1,510	277,409	69,352
	888,919	490,000	611,510	767,409	79,352
Drainage Districts					
Drain bonds and notes	3,481,836	2,361,000	761,209	5,081,627	635,409
County Airport					
Airport Note	24,059	-	5,631	18,428	5,961
TOTAL COMPONENT UNITS	4,394,814	2,851,000	1,378,350	5,867,464	720,722
TOTAL REPORTING ENTITY	\$ 5,585,563	\$ 3,385,753	\$ 2,062,347	\$ 6,908,969	\$ 829,495

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

Installment Purchase Agreements

\$420,000 Installment Purchase Agreement to refund Griffin Land Contract, dated April 27, 2004, due in annual installments ranging from \$38,498 to 45,685 through May 1, 2014, with an interest rate of 3.84 percent, payable semi-annually.	\$ 420,000
\$100,000 Installment Purchase Agreement, dated April 27, 2004, due in annual installments ranging from \$8,721 to \$11,384 through May 1, 2014, with interest of 6.01 percent, payable semi-annually.	100,000
	<u>\$ 520,000</u>

Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE H: LONG-TERM DEBT - CONTINUED

Capital Leases

\$61,532 Dell Capital lease for 31 Computers and 2 Servers, dated March 27, 2002, due in monthly installments ranging from \$1,542 to \$1,888 through February 27, 2005, with annual interest ranging from 6.965 percent to 7.192 percent, payable monthly.	\$ 3,743
\$61,532 Kyocera Capital lease for 2 Digital Copiers, dated August 15, 2003, due in monthly installments ranging from \$175 to \$264 through July 15, 2006, with annual interest ranging from 14.234 percent to 15.201 percent, payable monthly.	4,468
\$14,753 Dell Capital lease for 3 Servers, dated February 26, 2004, due in monthly installments ranging from \$360 to \$464 through February 26, 2007, with annual interest ranging from 8.744 percent to 9.104 percent, payable monthly.	<u>10,570</u>
	<u>\$ 18,781</u>

Accrued compensated absences

In accordance with County personnel policies and/or contracts negotiated with various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

The dollar amount of these vested rights including related payroll taxes, amounted to \$236,607 and \$266,117 for vacation and sick, respectively, at December 31, 2004 for a total of \$502,724.

COMPONENT UNIT - ROAD COMMISSION

Accrued compensated absences

In accordance with County Road Commission personnel policies and/or contracts negotiated with various employee groups of the County Road Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes amounted to \$277,409 at December 31, 2004.

Bonds Payable

\$490,000 Michigan Transportation Refunding Bond, Series 2004 A, dated February 18, 2004 due in annual installments ranging from \$10,000 to \$165,000 through May 1, 2008, with interest ranging from 2.0 to 2.3 percent, payable semi-annually.	<u>\$ 490,000</u>
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COMPONENT UNIT - DRAINAGE DISTRICTS

\$1,375,000 Spaulding Drain Bonds, Series 1996, dated March 1, 1996, due in annual installments ranging from \$25,000 to \$100,000 through June 1, 2016, with interest ranging from 5.0 percent to 8.0 percent, payable semi-annually.	\$ 975,000
\$2,265,000 Owosso Drain Bonds, Series 2004, dated December 1, 2004, due in annual installments ranging from \$90,000 to \$125,000 through June 1, 2025, with interest ranging from 3.0 percent to 4.75 percent, payable semi-annually.	2,265,000

Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE H: LONG-TERM DEBT - CONTINUED

COMPONENT UNIT - DRAINAGE DISTRICTS - CONTINUED

\$1,810,000 Misteguay Creek Intercounty Notes, Series 2002B, dated May 1, 2002, due in annual installments ranging from \$225,000 to \$500,000 through June 1, 2007, with interest ranging from 5.5 percent to 6.5 percent, payable semi-annually.	\$ 810,000
\$96,000 Hasford #2 Drain Note, dated March 19, 2004, due in annual installments of \$19,200 through July 1, 2009, with an interest rate of 2.98 percent, payable annually.	96,000
\$237,000 Martin Manor Drain Note, dated June 1, 2003, due in annual installments ranging from \$33,000 to \$34,000 through July 1, 2010, with an interest rate of 3.37 percent, payable annually.	203,000
\$252,089 Woodlawn Drain Note, dated March 26, 1997, due in annual installments of \$25,209 through July 1, 2007, with an interest rate of 5.85 percent, payable annually.	75,627
\$360,000 North Creek and Orser Consolidated Note, dated June 15, 2000, due in annual installments of \$72,000 through June 15, 2005, with an interest rate of 4.99 percent, payable semi-annually.	72,000
\$675,000 Corunna Water Supply System Bonds, Series 1992, dated September 2, 1992, due in annual installments ranging from \$25,000 to \$50,000 through May 1, 2011, with interest ranging from 3.25 percent to 6.25 percent, payable semi-annually.	350,000
\$270,000 Henderson Drain Bonds, Series 1996, dated April 1, 1996, due in annual installments ranging from \$5,000 to \$20,000 through June 1, 2021, with interest ranging from 6.5 percent to 7.0 percent, payable semi-annually.	<u>235,000</u>
	<u>\$ 5,081,627</u>

COMPONENT UNIT - AIRPORT

\$52,832 Owosso Community Airport Note, dated July 30, 1997, due in annual installments ranging from \$4,180 to \$6,277 through July 30, 2007, with an interest rate of 5.3 percent, payable annually.	<u>\$ 18,428</u>
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The annual requirements to pay the debt principal and interest outstanding for the following bonds and loans are as follows:

PRIMARY GOVERNMENT

Year Ending December 31,	Land Contract		Installment Loan		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 38,498	\$ 15,389	\$ 8,721	\$ 5,748	\$ 11,281	\$ 1,230
2006	39,237	13,896	8,983	5,216	7,038	378
2007	39,990	12,375	9,253	4,668	462	3
2008	40,758	10,825	9,531	4,103	-	-
2009	41,540	9,245	9,818	3,522	-	-
2010-2014	<u>219,977</u>	<u>21,439</u>	<u>53,694</u>	<u>8,259</u>	<u>-</u>	<u>-</u>
	<u>\$ 420,000</u>	<u>\$ 83,169</u>	<u>\$ 100,000</u>	<u>\$ 31,516</u>	<u>\$ 18,781</u>	<u>\$ 1,611</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE H: LONG-TERM DEBT - CONTINUED**COMPONENT UNITS**

Year Ending December 31,	Road Commission		Drainage Districts		Airport Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	10,000	10,195	\$ 635,409	\$ 226,137	5,961	977
2006	155,000	8,545	538,409	194,615	6,277	661
2007	160,000	5,395	538,409	166,791	6,190	328
2008	165,000	1,898	288,200	145,928	-	-
2009	-	-	288,200	133,336	-	-
2010-2014	-	-	1,093,000	500,887	-	-
2015-2019	-	-	910,000	260,788	-	-
2020-2024	-	-	665,000	96,006	-	-
2025-2029	-	-	125,000	2,719	-	-
	<u>\$ 490,000</u>	<u>\$ 26,033</u>	<u>\$ 5,081,627</u>	<u>\$ 1,727,207</u>	<u>\$ 18,428</u>	<u>\$ 1,966</u>

Road Commission Advance Refunding - Current

On February 18, 2004, the Road Commission defeased the MMBA Transportation Fund Program Bond, Series 1992 C which was due and payable August 1, 1992 through August 1, 2007. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The Commission issued 2004 Michigan Transportation Fund Refunding Bond in the amount of \$490,000. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Commission's financial statements. At December 31, 2004, bonds due and payable November 1, 2005 through May 1, 2008 for the MMBA Transportation Fund Program Bond, Series 1992 C in the amount of \$475,000 are considered defeased.

As a result of the advance refunding, the Road Commission decreased its total debt service requirements by \$33,909, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$39,972.

NOTE I: EMPLOYEE RETIREMENT SYSTEM**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION AND COUNCIL ON AGING)**

The County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time County employees are covered by the retirement system with exception of the Road Commission employees. The Road Commission employees are covered under a separate retirement plan.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE I: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION AND COUNCIL ON AGING) - CONTINUED

Normal Retirement:

Union:

Age 50 with 25 or more years of credited service

Age 55 with 15 or more years of credited service

Age 60 with 10 or more years of credited service

Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

The County is required to contribute to the Retirement Plan at an actuarially determined rate. The current rate ranges from 0% to 40.70% as a percentage of annual covered payrolls and varies by the participating employee groups. These contributions are funded by the County on behalf of plan members. In addition, certain employee bargaining groups have negotiated benefits whereby the participating members are required to contribute to the Plan. These participation levels range from 0% to 10% of their annual covered payroll. The contribution requirements of the County are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the County, depending on the MERS contribution program adopted and/or negotiated by the County.

Annual Pension Cost

For the year ended December 31, 2004 the County's annual pension cost of \$2,583,118 for the plan was equal to the County's required contribution. Of this amount, \$1,642,126 was county general employees and \$940,992 was medical care facility employees. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE I: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION AND COUNCIL ON AGING) - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 44,638,726	\$ 46,029,373	\$ 49,624,765
Actuarial accrued liability (AAL) (entry age)	62,440,009	67,208,543	72,526,902
Unfunded AAL	17,801,283	21,179,170	22,902,137
Funded ratio	71%	68%	68%
Covered payroll	17,480,395	18,235,848	19,041,797
UAAL as a percentage of covered payroll	102%	116%	120%
Annual pension cost	2,589,156	2,829,192	2,583,118
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

COMPONENT UNIT - ROAD COMMISSION

Description of Plan and Plan Assets

The Commission participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time employees are covered by the retirement system.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

- Age 50 with 25 or more years of credited service
- Age 55 with 15 or more years of credited service
- Age 60 with 10 or more years of credited service (reduced to 8 or 6 years depending on benefits)
- Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE I: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees must contribute 5% of annual compensation. The Commission is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2004 the Commission's annual pension cost of \$280,709 for the plan was equal to the Commission's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases depending on age, merit, longevity, and promotional salary increases. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 9,939,783	\$ 9,757,935	\$10,070,372
Actuarial accrued liability (AAL)	12,290,746	12,677,814	13,235,700
Unfunded AAL	2,350,963	2,919,879	3,165,328
Funded ratio	81%	77%	76%
Covered payroll	1,841,810	1,857,180	2,003,779
UAAL as a percentage of covered payroll	128%	157%	158%
Annual pension cost	224,660	228,671	280,709
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

COMPONENT UNIT - COUNCIL ON AGING

Description of Plan and Plan Assets

The Council participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time employees are covered by the retirement system.

Shiawassee County, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE I: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

COMPONENT UNIT - COUNCIL ON AGING - CONTINUED

Description of Plan and Plan Assets - continued

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 50 with 25 or more years of credited service
Age 55 with 15 or more years of credited service
Age 60 with 10 or more years of credited service
Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees must contribute 5% of annual compensation. The Council is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2004 the Council's annual pension cost of \$9,748 for the plan was equal to the Council's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases depending on age, merit, longevity, and promotional salary increases. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Shiawassee County, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE I: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

COMPONENT UNIT - COUNCIL ON AGING - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 303,293	\$ 317,158	\$ 347,671
Actuarial accrued liability (AAL) (entry age)	372,789	404,632	441,917
Unfunded AAL	69,496	87,474	94,246
Funded ratio	81%	78%	79%
Covered payroll	162,246	166,478	173,564
UAAL as a percentage of covered payroll	43%	53%	54%
Annual pension cost	7,468	8,730	9,748
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE J: RISK MANAGEMENT

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

The County carries commercial insurance for the risk of loss due to workers' compensation claims.

The County is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately.

The administration of the Authority is directed by a nine (9) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the authority to impose sanctions or terminate membership. The County, by resolution of the County Board of Commissioners, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the County and the Authority.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Shiawassee County with loss protection for general and auto liability, motor vehicle physical damage, and property damage. Under most circumstances the County's maximum loss per occurrence is limited as follows:

<u>Type of Risk</u>	<u>Maximum Retention Per Occurrence</u>
General and auto liability	\$ 100,000
Motor vehicle physical damage	30,000
Property coverage	100,000

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE J: RISK MANAGEMENT - CONTINUED

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

Liability insurance claims are expensed as incurred. The liability is determined by the Michigan Municipal Risk Management Authority management based on an actuarial study performed using historical data and available insurance industry statistics. The liability includes a reserve for reported claims, and reported legal expenses as well as incurred but not reported claims.

The Authority has reserved fund balance to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that Shiawassee County incurs a loss in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess.

In addition, the Authority has accumulated resources to create and fund an internal Stop Loss Fund. The Stop Loss Fund was initiated to eliminate the need to purchase aggregate reinsurance for aggregate losses paid in excess of \$193,000, net of reinsurance recoveries for any one member in any one year. Aggregate paid losses in excess of \$193,000 net of reinsurance recoveries are paid entirely from the Internal Stop Loss Fund. If at any time the Stop Loss Fund is insufficient to fund Shiawassee County's losses, the remaining liability shall become the responsibility of the Authority as a whole.

At December 31, 2004, the County had funds on deposit of \$343,221 with the Authority and reserves for reported claims of \$169,745.

ROAD COMMISSION - COMPONENT UNIT

The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, trunkline, excess liability, auto liability, directors' and officers' liability, errors and omissions and physical damage. The Road Commission participates in the County Road Commission Self-Insurance Fund (CRCSIF) for workers' compensation insurance and has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. The Commission has no liability for additional assessments based on the claims filed against the fund nor do they have rights to dividends.

NOTE K: CONTINGENT LIABILITIES

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

The County participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The Single Audit of the Federal Programs and the periodic program compliance audits of many of the State programs have not yet been completed or final resolution has not been received. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

There are various legal actions pending against the County. Due to the inconclusive nature of many of the actions, it is not possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the County's potential liability, if any. Those actions for which a reasonable estimate can be determined of the County's potential liability and that would not be covered by insurance and reserves, if any, could be material to the County.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE K: CONTINGENT LIABILITIES - CONTINUED

ROAD COMMISSION - COMPONENT UNIT

The Commission participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

There are various other legal actions pending against the Commission. Due to the inconclusive nature of many of the actions, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by the Commission and legal counsel to be immaterial.

NOTE L: PROPERTY TAXES AND TAXES RECEIVABLE

The County property tax is levied each December 1 on the taxable valuation of property located in the County as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the next February.

Although the County's 2004 ad valorem tax is levied and collectible by December 1, 2004, it is the County's policy for all governmental fund types (with the exception below) to recognize revenues from the current tax levy in the year when the proceeds of the levy are budgeted and made available for financing County operations.

Beginning with the 2004 tax levy the State has mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 to 2006 ad valorem operating tax is being recognized. The purpose of the fund is to accumulate reserves from which Revenue Sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's tax levy will be shifting over the next three years from winter to summer.

Taxable values are established annually by the local municipalities and are equalized by the County based on State statutes at an estimated percentage of the current market value. Real and personal property in Shiawassee County for the 2004 levy had a taxable value of \$1,524,102,197 on which ad valorem taxes levied for County general operating purposes was 5.1876 mills. The Medical Care Facility and Council on Aging funds levied 2.0000 and 0.1629 mills, respectively.

Taxes are collected by the various tax collecting units from the date of the levy and remitted to the County through the Trust and Agency Fund for distribution to the General Fund. The property taxes levied December 1 are accrued as current tax receivable with the appropriate deferral, and are budgeted as revenue in the subsequent year in the General and Council on Aging Funds. The Medical Care Facility recognizes tax revenue as it is levied.

The delinquent taxes receivable represents unpaid real property taxes in the Delinquent Tax Revolving Fund.

By agreement with the various taxing authorities, the County purchases at face value the real property taxes returned delinquent each March 1 and records corresponding delinquent taxes receivable.

Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE M: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund equity is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the County has set aside for specific purposes. These reserves and designations are recorded at the fund level to indicate management's plans for these funds.

The following are the various fund balance reserves as of December 31, 2004:

PRIMARY GOVERNMENT	
General Fund	
Reserved for	
Advances to component units	\$ 170,000
Park outlay	<u>3,728</u>
	173,728
Health Department	
Reserved for inventories	<u>72,925</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 246,653</u>
COMPONENT UNITS	
Drainage Districts	
Reserved for advances to other funds	<u>\$ 49,837</u>

The following are fund balance designations as of December 31, 2004:

PRIMARY GOVERNMENT	
Nonmajor governmental funds	
Designated for capital improvement	<u>\$ 383,969</u>
COMPONENT UNIT	
Drainage Districts	
Designated for capital expenditures	<u>\$ 4,590,992</u>

NOTE N: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2004:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for	
Public safety	
Central dispatch	\$ 862,912
Local corrections training	25,130
Drug forfeiture	283
Drunk driving	69,762
Sheriff collection	26,384
JAIBG	513
Local law enforcement	<u>10,369</u>
	<u>\$ 995,353</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE N: RESTRICTED NET ASSETS - CONTINUED

Capital improvements	<u>\$ 107,969</u>
Other purposes	
Friend of the Court	\$ 383,293
Register of Deeds automation	107,713
Budget stabilization	478,643
Law library	1,263
Child care	81,802
Veteran trust	583
Farmland preservation	15,375
Housing rehabilitation	53,460
County library	19,749
Revenue sharing	<u>2,092,068</u>
	<u>\$ 3,233,949</u>
Business-type activities	
Medical Care Facility	
Restricted for employee benefits	<u>\$ 2,510,148</u>
COMPONENT UNITS	
Drainage Districts	
Restricted for capital improvements	<u>\$ 3,809,223</u>
Road Commission	
Restricted for County Roads	<u>\$ 4,013,511</u>

NOTE O: FLEXIBLE BENEFITS PLAN

In May 2002 the County implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The plan is available to all employees who have completed 30 days of full-time employment with the County and normally work not less than 20 hours per week for the County and normally are scheduled to work at least five months during the plan year. The plan permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to dependent care benefits, medical expense reimbursement benefits or medical benefits. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The plan is administered by the County.

ROAD COMMISSION - COMPONENT UNIT

In November 1993 the Commission implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Service Code. The plan is available to all employees following 30 days of employment. The plan permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The plan is administered by Shiawassee County Road Commission.

Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE P: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund balance and net assets. The effect on operations and other affected balances for the current and prior period are as follows:

	December 31,		
	<u>2004</u>	<u>2003</u>	<u>Description</u>
PRIMARY GOVERNMENT			
Governmental Activities			
Long-term debt	\$ -	\$ 297,890	Correct overstatement of long-term debt and compensated absences and understatement of capital assets
Compensated absences	-	120,839	
Capital assets, net	-	(495,038)	
Change in net assets	-	(76,309)	
Net assets - beginning	(76,309)	-	
Health Department			
Accrued liabilities	-	9,086	Correct understatement of accrued liabilities and understatement of deferred revenue
Deferred revenue	-	13,582	
Revenues over (under) expenditures	-	(22,668)	
Fund balance - beginning	(22,668)	-	
Net assets - beginning	(22,668)	-	
Business-type Activities			
Jail Commissary			
Cash and cash equivalents	-	74,235	Correct understatement of cash
Change in net assets	-	74,235	
Net assets - beginning	74,235	-	
Medical Care Facility			
Deferred revenue	-	(2,748,143)	Correct overstatement of deferred revenue and accrued liabilities
Accrued liabilities	-	(149,619)	
Change in net assets	-	2,897,762	
Net assets, beginning	2,897,762	-	
COMPONENT UNITS			
Airport			
Accounts receivable	-	(15,761)	Correct understatement of revenues and understatement of accounts receivable
Revenue over (under) expenditures	-	11,691	
Net assets - beginning	(4,070)	-	
Council on Aging			
Due from other governmental units	-	38,926	Correct understatement of cash and receivable
Cash and cash equivalents	-	343,508	
Change in net assets	-	382,434	
Net assets - beginning	382,434	-	

Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE Q: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

In the body of the financial statements, the County's budgeted expenditures in the General Fund and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the County have been adopted at the activity level for the General Fund and the total expenditure level for the major Special Revenue Funds.

During the year ended December 31, 2004, the County incurred expenditures in the General Fund and eighteen (18) Special Revenue funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Circuit court - probation/parole	\$ 20,770	\$ 23,156	\$ 2,386
County survey and remonumentation	130,197	130,326	129
Courthouse and grounds	753,872	765,049	11,177
Printing	24,580	27,095	2,515
Health and welfare			
Household hazardous waste	10,760	11,202	442
Community economic development			
Zoning department	92,913	93,623	710
Other			
Other	150,126	176,939	26,813
Debt service	11,069	431,069	420,000
Operating transfers to other funds			
Drunk Driving Assistance	14,000	15,744	1,744
Special Revenue Funds			
Revenue Sharing Reserve Fund	-	543,570	543,570
Health Department Fund	2,766,781	3,051,222	284,441
Drunk Driving	-	16,557	16,557
Budget Stabilization	-	50,000	50,000
Sheriff Collection	-	22,421	22,421
Drug Forfeiture	-	40,053	40,053
Prosecutor's Assets	-	2,078	2,078
Local Law Enforcement	-	45,064	45,064
County Library	-	143,229	143,229
Employment and Training	-	826	826
REACH	1,700	1,980	280
Social Welfare - FIA	-	150,070	150,070
Child Care - FIA	-	161,939	161,939
Veterans Trust	3,600	6,567	2,967
Cigarette Tax	15,000	15,763	763
In Home COBO	43,000	44,549	1,549
In Home FIA	-	22,029	22,029
Gun Range	-	2,212	2,212

Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE R: FUND BALANCE DEFICIT

The following funds had a fund balance deficit at December 31, 2004:

	<u>Deficit</u>
Primary Government	
Nonmajor governmental funds	
Child care - probate	\$ 33,416

NOTE S: RESTATED NET ASSETS

Beginning net assets of the governmental activities have been restated to properly reflect the exclusion of certain funds reported in the audited financial statements for the year ended December 31, 2003 that no longer meet the reporting unit disclosure requirement. The net adjustment to the governmental activities net assets was \$(3,616,615).

Beginning net assets of the business-type activities have been restated to properly reflect the inclusion of an enterprise fund the County had in place at the end of the prior year but the prior auditor failed to include it in the financial statements. The net adjustment to the business-type activities net assets was \$4,053.

REQUIRED SUPPLEMENTARY INFORMATION

Shiawassee County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND
OTHER FINANCING SOURCES

Year Ended December 31, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Current and delinquent property taxes	\$ 7,417,500	\$ 7,449,693	\$ 7,449,709	\$ 16
Mobile home park taxes	12,750	13,093	13,783	690
Other tax revenue	500	3,980	3,940	(40)
Total taxes	7,430,750	7,466,766	7,467,432	666
Licenses and permits				
Dog licenses	74,500	74,500	74,167	(333)
Other licenses and permits	22,500	24,064	24,264	200
Total licenses and permits	97,000	98,564	98,431	(133)
Intergovernmental - Federal/State				
Cooperative reimbursement				
Prosecuting attorney	150,000	138,854	132,823	(6,031)
Friend of the court	512,891	512,891	512,891	-0-
Juvenile grant	27,500	20,488	27,317	6,829
ADC Maintenance incentive	122,873	235,466	156,060	(79,406)
Sheriff - road patrol	127,160	141,970	123,844	(18,126)
Liquor license	11,600	12,421	12,421	-0-
Convention facility liquor tax	85,000	89,306	91,260	1,954
Revenue sharing - per capita	1,314,518	1,372,236	573,123	(799,113)
Revenue sharing - inventory	92,500	83,279	83,279	-0-
Victims' rights	56,100	42,604	69,281	26,677
Drivers license restoration	14,000	16,022	16,022	-0-
Probate court judge	139,919	147,330	147,330	-0-
Circuit court judge	45,724	45,724	45,724	-0-
District court judge	91,448	91,448	91,448	-0-
Diverted felons	75,000	22,500	20,010	(2,490)
Jury fee reimbursement	12,500	15,230	15,230	-0-
Household hazardous waste	-	36,738	18,754	(17,984)
Community corrections	160,187	101,187	104,764	3,577
PA 345 - remonumentation	92,263	130,197	146,415	16,218
Court equity	394,000	408,343	412,655	4,312
Emergency management	131,582	137,313	140,571	3,258
Other	24,770	1,050	-	(1,050)
Total intergovernmental - Federal/State	3,681,535	3,802,597	2,941,222	(861,375)

Shiawassee County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND
OTHER FINANCING SOURCES - CONTINUED

Year Ended December 31, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES - CONTINUED				
Charges for services				
Sheriff	\$ 32,000	\$ 36,949	\$ 34,255	\$ (2,694)
Treasurer fees	5,500	8,880	9,238	358
Drain commissioner	1,000	60	65	5
Friend of the court service fees	53,000	70,604	76,178	5,574
District court	819,000	944,601	954,850	10,249
Circuit court	210,000	263,372	259,916	(3,456)
Probation - juvenile	16,000	16,000	14,924	(1,076)
Clerk	78,000	83,292	82,943	(349)
Register of deeds	590,000	587,057	595,461	8,404
Community corrections	12,050	8,050	8,680	630
Probate court	80,000	64,700	65,066	366
Community development	115,000	125,880	121,367	(4,513)
Landfill agreement	80,000	87,500	86,067	(1,433)
Care of prisoners	270,250	365,630	372,769	7,139
Housing rehab program	52,913	43,317	43,507	190
Other charges and services	14,800	47,997	9,137	(38,860)
Total charges for services	2,429,513	2,753,889	2,734,423	(19,466)
Fines and forfeits				
Bond forfeitures	7,000	17,000	16,465	(535)
Ordinance fines and costs	243,000	227,000	226,604	(396)
Total fines and forfeits	250,000	244,000	243,069	(931)
Interest and rents				
Interest	125,000	105,000	103,955	(1,045)
Rents	26,750	29,950	27,525	(2,425)
Total interest and rents	151,750	134,950	131,480	(3,470)
Other				
Contributions	-	2,857	2,957	100
Reimbursements - indirect costs	71,000	75,239	51,000	(24,239)
Reimbursements - other	12,400	5,775	10,097	4,322
Sale of land	125,000	-	-	-0-
Other	39,181	39,181	16,911	(22,270)
Total other	247,581	123,052	80,965	(42,087)
TOTAL REVENUES	14,288,129	14,623,818	13,697,022	(926,796)

Shiawassee County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND
OTHER FINANCING SOURCES - CONTINUED

Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES				
Operating transfers from other funds				
Revenue Sharing Reserve	\$ -	\$ -	\$ 543,570	\$ 543,570
Delinquent Tax Revolving	430,000	605,000	605,000	-0-
Budget Stabilization	-	50,000	50,000	-0-
Prosecutor's Fees	51,009	28,700	28,700	-0-
Drunk Driving Assistance	-	5,000	5,000	-0-
Sheriff Collection	-	3,930	3,930	-0-
Employment and Training	-	1,146	826	(320)
Debt proceeds	-	-	420,000	420,000
Total other financing sources	<u>481,009</u>	<u>693,776</u>	<u>1,657,026</u>	<u>963,250</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 14,769,138</u>	<u>\$ 15,317,594</u>	<u>\$ 15,354,048</u>	<u>\$ 36,454</u>

Shiawassee County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND
OTHER FINANCING USES BY ACTIVITY

Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
General government				
Board of Commissioners	\$ 167,042	\$ 171,765	\$ 167,335	\$ 4,430
Circuit court	537,285	544,360	536,087	8,273
District court	1,032,164	1,046,764	1,024,021	22,743
Friend of court	712,777	686,917	651,561	35,356
Probate - juvenile division	642,071	631,071	627,909	3,162
Probate - estate division	428,701	413,701	397,300	16,401
Circuit court - probation/parole	20,770	20,770	23,156	(2,386)
County Coordinator	150,208	144,808	139,570	5,238
Elections	93,615	67,918	66,722	1,196
Clerk	400,904	426,601	414,815	11,786
Equalization	233,046	239,182	235,136	4,046
Prosecuting Attorney	841,218	824,218	789,553	34,665
Jury	43,500	49,500	42,247	7,253
Register of Deeds	329,204	326,204	310,378	15,826
County survey and remonumentation	92,263	130,197	130,326	(129)
Information systems	140,878	140,878	136,179	4,699
Treasurer	290,200	274,150	254,253	19,897
Postage	72,207	62,207	62,000	207
Agricultural extension	84,982	84,982	75,013	9,969
Courthouse and grounds	753,872	753,872	765,049	(11,177)
Drain commissioner	294,631	282,631	271,514	11,117
Strategic planning	50,000	50,000	50,000	-0-
Printing	24,000	24,580	27,095	(2,515)
Telephone	123,000	113,355	112,949	406
Contractual services	72,000	145,433	122,243	23,190
Airport	8,139	8,139	8,139	-0-
Other	51,931	51,931	40,753	11,178
Total general government	7,690,608	7,716,134	7,481,303	234,831
Public safety				
Sheriff	2,503,210	2,672,463	2,604,480	67,983
Secondary road patrol	189,698	204,626	200,392	4,234
Community corrections	211,320	85,220	80,412	4,808
Jail	1,766,569	1,789,688	1,747,827	41,861
Animal control	128,954	145,882	138,297	7,585
Total public safety	4,799,751	4,897,879	4,771,408	126,471

Shiawassee County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND
OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Public works				
Drains at large	\$ 163,892	\$ 163,892	\$ 133,903	\$ 29,989
Health and welfare				
Household hazardous waste	-	10,760	11,202	(442)
Medical examiner	107,699	107,699	104,543	3,156
Mental health	200,000	200,000	200,000	-0-
Emergency services	189,487	217,529	208,470	9,059
Veterans affairs	32,787	32,787	32,201	586
Veterans burials	15,000	15,789	15,596	193
Total health and welfare	544,973	584,564	572,012	12,552
Community and economic development				
Planning department	85,762	85,762	70,011	15,751
Zoning department	92,913	92,913	93,623	(710)
Total community and economic development	178,675	178,675	163,634	15,041
Recreation and cultural				
Parks	17,850	17,850	9,209	8,641
Other				
Insurance and bonds	526,536	817,005	594,517	222,488
Other	154,464	150,126	176,939	(26,813)
Total other	681,000	967,131	771,456	195,675
Capital outlay	3,123	3,123	3,123	-0-
Debt service	11,069	11,069	431,069	(420,000)
TOTAL EXPENDITURES	14,090,941	14,540,317	14,337,117	203,200

Shiawassee County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND
OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING USES				
Operating transfers to other funds				
Farmland Preservation	\$ -	\$ 1,400	\$ 1,400	\$ -0-
Drunk Driving Assistance	14,000	14,000	15,744	(1,744)
Law Library	10,000	10,000	3,000	7,000
Social Welfare - FIA	5,000	5,000	5,000	-0-
Child Care - FIA	90,000	90,000	90,000	-0-
Child Care - Probate	220,000	290,161	290,161	-0-
District Health Department	270,000	297,368	297,368	-0-
Debt Service	119,197	119,348	119,348	-0-
	<u>728,197</u>	<u>827,277</u>	<u>822,021</u>	<u>5,256</u>
TOTAL OTHER FINANCING USES				
	<u>728,197</u>	<u>827,277</u>	<u>822,021</u>	<u>5,256</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 14,819,138</u>	<u>\$ 15,367,594</u>	<u>\$ 15,159,138</u>	<u>\$ 208,456</u>

Shiawassee County, Michigan
Revenue Sharing Reserve Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ -	\$ -	\$ 2,635,638	\$ 2,635,638
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-0-</u>
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	2,635,638	2,635,638
OTHER FINANCING (USES)				
Operating transfers out	<u>-</u>	<u>-</u>	<u>(543,570)</u>	<u>(543,570)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING (USES)	-0-	-0-	2,092,068	2,092,068
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 2,092,068</u></u>	<u><u>\$ 2,092,068</u></u>

Shiawassee County, Michigan

Health Department Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses and permits	\$ 216,650	\$ 216,650	\$ 179,542	\$ (37,108)
Intergovernmental	1,854,948	1,987,081	2,191,625	204,544
Charges for services	265,682	265,682	341,220	75,538
TOTAL REVENUES	2,337,280	2,469,413	2,712,387	242,974
EXPENDITURES				
Current				
Health and welfare	2,641,280	2,766,781	3,020,144	(253,363)
Debt service	-	-	31,078	(31,078)
TOTAL EXPENDITURES	2,641,280	2,766,781	3,051,222	(284,441)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(304,000)	(297,368)	(338,835)	(41,467)
OTHER FINANCING SOURCES				
Lease proceeds	-	-	14,753	14,753
Operating transfers in	304,000	297,368	297,368	-0-
TOTAL OTHER FINANCING SOURCES	304,000	297,368	312,121	14,753
EXCESS OF REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	-0-	-0-	(26,714)	(26,714)
Fund balance, beginning of year	500,271	500,271	500,271	-0-
Prior period adjustments	-	-	(22,668)	(22,668)
Fund balance, end of year	\$ 500,271	\$ 500,271	\$ 450,889	\$ (49,382)

OTHER SUPPLEMENTARY INFORMATION

Shiawassee County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

December 31, 2004

	Special			
	Friend of the Court	Central Dispatch	Drunk Driving	Prosecutor's Fees
ASSETS				
Cash and cash equivalents	\$ 384,288	\$ 774,610	\$ 69,762	\$ 37,557
Accounts receivable	-	64,050	-	-
Due to other funds	-	-	-	-
Due from other governmental units - Federal/State	-	36,288	-	2,173
TOTAL ASSETS	\$ 384,288	\$ 874,948	\$ 69,762	\$ 39,730
LIABILITIES AND FUND BALANCES (DEFICIT)				
LIABILITIES				
Accounts payable	\$ 130	\$ 2,483	\$ -	\$ -
Accrued liabilities	865	9,553	-	-
Due to other funds	-	-	-	-
Advances from other governmental units	-	-	-	-
TOTAL LIABILITIES	995	12,036	-0-	-0-
FUND BALANCES (DEFICIT)				
Unreserved				
Designated for capital improvement	-	276,000	-	-
Undesignated, reported in Special revenue funds	383,293	586,912	69,762	39,730
TOTAL FUND BALANCES (DEFICIT)	383,293	862,912	69,762	39,730
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 384,288	\$ 874,948	\$ 69,762	\$ 39,730

Revenue						
Budget Stabilization	Farmland Preservation	Building Code	Housing Rehabilitation	Sheriff Collection	Register of Deeds Automation	Local Correction Training
\$ 478,643	\$ 15,375	\$ 387,155	\$ 51,559	\$ 26,684	\$ 129,574	\$ 25,130
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	2,657	-	-	-
<u>\$ 478,643</u>	<u>\$ 15,375</u>	<u>\$ 387,155</u>	<u>\$ 54,216</u>	<u>\$ 26,684</u>	<u>\$ 129,574</u>	<u>\$ 25,130</u>
\$ -	\$ -	\$ 7,753	\$ 756	\$ 300	\$ 21,861	\$ -
-	-	9,995	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-0-	-0-	17,748	756	300	21,861	-0-
-	-	-	-	-	-	-
<u>478,643</u>	<u>15,375</u>	<u>369,407</u>	<u>53,460</u>	<u>26,384</u>	<u>107,713</u>	<u>25,130</u>
<u>478,643</u>	<u>15,375</u>	<u>369,407</u>	<u>53,460</u>	<u>26,384</u>	<u>107,713</u>	<u>25,130</u>
<u>\$ 478,643</u>	<u>\$ 15,375</u>	<u>\$ 387,155</u>	<u>\$ 54,216</u>	<u>\$ 26,684</u>	<u>\$ 129,574</u>	<u>\$ 25,130</u>

Shiawassee County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2004

	Special			
	Drug Forfeiture	Prosecutor's Assets	Local Law Enforcement	Law Library
ASSETS				
Cash and cash equivalents	\$ 368	\$ 8,838	\$ 10,369	\$ 1,753
Accounts receivable	-	-	-	-
Due to other funds	-	-	-	-
Due from other governmental units - Federal/State	-	-	-	-
TOTAL ASSETS	<u>\$ 368</u>	<u>\$ 8,838</u>	<u>\$ 10,369</u>	<u>\$ 1,753</u>
LIABILITIES AND FUND BALANCES (DEFICIT)				
LIABILITIES				
Accounts payable	\$ 85	\$ -	\$ -	\$ 490
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	-
Advances from other governmental units	-	-	-	-
TOTAL LIABILITIES	85	-0-	-0-	490
FUND BALANCES (DEFICIT)				
Unreserved				
Designated for capital improvement	-	-	-	-
Undesignated, reported in Special revenue funds	283	8,838	10,369	1,263
TOTAL FUND BALANCES (DEFICIT)	<u>283</u>	<u>8,838</u>	<u>10,369</u>	<u>1,263</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	<u>\$ 368</u>	<u>\$ 8,838</u>	<u>\$ 10,369</u>	<u>\$ 1,753</u>

Revenue						
County Library	JAIBG	Employment & Training	REACH	Social Welfare-FIA	Child Care - Probate	Child Care-FIA
\$ 24,200	\$ 90	\$ -	\$ 12,023	\$ 30,280	\$ 916	\$ 60,164
-	-	-	-	-	-	-
-	-	-	-	-	-	66,483
-	423	-	-	6,509	55,226	-
<u>\$ 24,200</u>	<u>\$ 513</u>	<u>\$ -0-</u>	<u>\$ 12,023</u>	<u>\$ 36,789</u>	<u>\$ 56,142</u>	<u>\$ 126,647</u>
\$ 4,451	\$ -	\$ -	\$ -	\$ 2,682	\$ 9,938	\$ 11,429
-	-	-	-	-	13,137	-
-	-	-	-	-	66,483	-
-	-	-	-	30,000	-	-
4,451	-0-	-0-	-0-	32,682	89,558	11,429
-	-	-	-	-	-	-
19,749	513	-	12,023	4,107	(33,416)	115,218
19,749	513	-0-	12,023	4,107	(33,416)	115,218
<u>\$ 24,200</u>	<u>\$ 513</u>	<u>\$ -0-</u>	<u>\$ 12,023</u>	<u>\$ 36,789</u>	<u>\$ 56,142</u>	<u>\$ 126,647</u>

Shiawassee County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2004

	Special			
	Veterans Trust	Cigarette Tax	In Home Cobo	In Home FIA
ASSETS				
Cash and cash equivalents	\$ 683	\$ 42,334	\$ 5,270	\$ -
Accounts receivable	-	-	-	-
Due from other funds	-	-	-	-
Due from other governmental units - Federal/State	-	-	-	-
TOTAL ASSETS	<u>\$ 683</u>	<u>\$ 42,334</u>	<u>\$ 5,270</u>	<u>\$ -0-</u>
LIABILITIES AND FUND BALANCES (DEFICIT)				
LIABILITIES				
Accounts payable	\$ 100	\$ 446	\$ 350	\$ -
Accrued liabilities	-	-	319	-
Due to other funds	-	-	-	-
Advances from other governmental units	-	-	-	-
TOTAL LIABILITIES	100	446	669	-0-
FUND BALANCES (DEFICIT)				
Unreserved				
Designated for capital improvement	-	-	-	-
Undesignated, reported in Special revenue funds	583	41,888	4,601	-
TOTAL FUND BALANCES (DEFICIT)	<u>583</u>	<u>41,888</u>	<u>4,601</u>	<u>-0-</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	<u>\$ 683</u>	<u>\$ 42,334</u>	<u>\$ 5,270</u>	<u>\$ -0-</u>

Revenue	Debt Service	Capital Projects			Total Nonmajor Governmental Funds
Gun Range	Building Authority	Capital Improvement	Equipment Acquisition	Jail Fund	
\$ 1	\$ -	\$ 6,687	\$ 30,887	\$ 70,395	\$ 2,685,595
-	-	-	-	-	64,050
-	-	-	-	-	66,483
-	-	-	-	-	103,276
<u>\$ 1</u>	<u>\$ -0-</u>	<u>\$ 6,687</u>	<u>\$ 30,887</u>	<u>\$ 70,395</u>	<u>\$ 2,919,404</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,254
-	-	-	-	-	33,869
-	-	-	-	-	66,483
-	-	-	-	-	30,000
-0-	-0-	-0-	-0-	-0-	193,606
-	-	6,687	30,887	70,395	383,969
1	-	-	-	-	2,341,829
1	-0-	6,687	30,887	70,395	2,725,798
<u>\$ 1</u>	<u>\$ -0-</u>	<u>\$ 6,687</u>	<u>\$ 30,887</u>	<u>\$ 70,395</u>	<u>\$ 2,919,404</u>

Shiawassee County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	Special			
	Friend of the Court	Central Dispatch	Drunk Driving	Prosecutor's Fees
REVENUES				
Intergovernmental	\$ -	\$ 4,235	\$ -	\$ 19,914
Charges for services	7,920	932,921	-	1,856
Fines and forfeits	-	-	-	-
Interest and rents	5,724	5,749	258	-
Other	-	-	-	-
TOTAL REVENUES	13,644	942,905	258	21,770
EXPENDITURES				
Current				
General government	71,319	-	-	722
Public safety	-	866,207	11,557	-
Health and welfare	-	-	-	-
Community and economic development	-	-	-	-
Recreation and cultural	-	-	-	-
Capital outlay	-	10,146	-	-
Debt service	-	-	-	-
TOTAL EXPENDITURES	71,319	876,353	11,557	722
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(57,675)	66,552	(11,299)	21,048
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	15,744	-
Debt proceeds	-	-	-	-
Operating transfers out	-	(35,000)	(5,000)	(28,700)
TOTAL OTHER FINANCING SOURCES (USES)	-	(35,000)	10,744	(28,700)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	(57,675)	31,552	(555)	(7,652)
Fund balances (deficit), beginning of year	440,968	831,360	70,317	47,382
Fund balances (deficit), end of year	\$ 383,293	\$ 862,912	\$ 69,762	\$ 39,730

Revenue						
Budget Stabilization	Farmland Preservation	Building Code	Housing Rehabilitation	Sheriff Collection	Register of Deeds Automation	Local Correction Training
\$ -	\$ -	\$ -	\$ 189,588	\$ -	\$ -	\$ -
-	-	425,437	34,603	14,357	97,603	25,130
-	-	-	-	-	-	-
5,090	-	-	-	-	899	-
-	13,975	-	-	-	-	-
5,090	13,975	425,437	224,191	14,357	98,502	25,130
-	-	-	-	-	68,680	-
-	-	-	-	18,491	-	-
-	-	-	224,278	-	-	-
-	-	500,538	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-0-	-0-	500,538	224,278	18,491	68,680	-0-
5,090	13,975	(75,101)	(87)	(4,134)	29,822	25,130
-	1,400	-	-	34,448	-	-
-	-	-	-	-	-	-
(50,000)	-	-	-	(3,930)	-	-
(50,000)	1,400	-0-	-0-	30,518	-0-	-0-
(44,910)	15,375	(75,101)	(87)	26,384	29,822	25,130
523,553	-	444,508	53,547	-	77,891	-
\$ 478,643	\$ 15,375	\$ 369,407	\$ 53,460	\$ 26,384	\$ 107,713	\$ 25,130

Shiawassee County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2004

	Special			
	Drug Forfeiture	Prosecutor's Assets	Local Law Enforcement	Law Library
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 30,344	\$ -
Charges for services	3,992	-	-	-
Fines and forfeits	-	2,078	-	6,500
Interest and rents	-	-	57	-
Other	-	-	-	-
TOTAL REVENUES	3,992	2,078	30,401	6,500
EXPENDITURES				
Current				
General government	-	475	-	10,166
Public safety	5,605	-	45,064	-
Health and welfare	-	-	-	-
Community and economic development	-	-	-	-
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
TOTAL EXPENDITURES	5,605	475	45,064	10,166
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,613)	1,603	(14,663)	(3,666)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	3,000
Debt proceeds	-	-	-	-
Operating transfers out	(34,448)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(34,448)	-0-	-0-	3,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	(36,061)	1,603	(14,663)	(666)
Fund balances (deficit), beginning of year	36,344	7,235	25,032	1,929
Fund balances (deficit), end of year	\$ 283	\$ 8,838	\$ 10,369	\$ 1,263

Revenue						
County Library	JAIBG	Employment & Training	REACH	Social Welfare-FIA	Child Care - Probate	Child Care-FIA
\$ -	\$ 12,064	\$ -	\$ -	\$ 139,533	\$ 266,078	\$ -
8,036	-	-	-	6,159	-	-
32,927	-	-	-	-	-	-
81	-	10	-	-	-	-
-	1,032	-	2,450	-	422,390	-
41,044	13,096	10	2,450	145,692	688,468	-0-
-	-	-	-	-	-	-
-	13,032	-	-	-	-	-
-	-	-	1,980	150,070	931,666	161,939
-	-	-	-	-	-	-
143,229	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
143,229	13,032	-0-	1,980	150,070	931,666	161,939
(102,185)	64	10	470	(4,378)	(243,198)	(161,939)
-	-	-	-	5,000	312,190	173,459
-	-	-	-	-	-	-
-	-	(826)	-	-	(83,459)	-
-0-	-0-	(826)	-0-	5,000	228,731	173,459
(102,185)	64	(816)	470	622	(14,467)	11,520
121,934	449	816	11,553	3,485	(18,949)	103,698
<u>\$ 19,749</u>	<u>\$ 513</u>	<u>\$ -0-</u>	<u>\$ 12,023</u>	<u>\$ 4,107</u>	<u>\$ (33,416)</u>	<u>\$ 115,218</u>

Shiawassee County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2004

	Special			
	Veterans Trust	Cigarette Tax	In Home Cobo	In Home FIA
REVENUES				
Intergovernmental	\$ 6,716	\$ 22,738	\$ 46,375	\$ -
Charges for services	-	-	-	-
Fines and forfeits	-	-	-	-
Interest and rents	-	-	-	340
Other	-	-	-	-
TOTAL REVENUES	6,716	22,738	46,375	340
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Health and welfare	6,567	15,763	44,549	-
Community and economic development	-	-	-	-
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Debt Service	-	-	-	-
TOTAL EXPENDITURES	6,567	15,763	44,549	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	149	6,975	1,826	340
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Debt proceeds	-	-	-	-
Operating transfers out	-	-	-	(22,029)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-	-0-	(22,029)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	149	6,975	1,826	(21,689)
Fund balances (deficit), beginning of year	434	34,913	2,775	21,689
Fund balances (deficit), end of year	\$ 583	\$ 41,888	\$ 4,601	\$ -0-

Revenue	Debt Service	Capital Projects			Total Nonmajor Governmental Funds
Gun Range	Building Authority	Capital Improvement	Equipment Acquisition	Jail Fund	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 737,585
960	-	-	-	-	1,558,974
-	-	-	-	-	41,505
-	-	-	17	-	18,225
-	-	197	-	-	440,044
960	-0-	197	17	-0-	2,796,333
-	-	-	-	-	151,362
2,212	-	-	-	-	962,168
-	-	-	-	-	1,536,812
-	-	-	-	-	500,538
-	-	-	-	-	143,229
-	-	404	69,130	4,351	84,031
-	119,348	-	-	-	119,348
2,212	119,348	404	69,130	4,351	3,497,488
(1,252)	(119,348)	(207)	(69,113)	(4,351)	(701,155)
-	119,348	-	-	35,000	699,589
-	-	-	100,000	-	100,000
-	-	-	-	-	(263,392)
-0-	119,348	-0-	100,000	35,000	536,197
(1,252)	-0-	(207)	30,887	30,649	(164,958)
1,253	-	6,894	-	39,746	2,890,756
\$ 1	\$ -0-	\$ 6,687	\$ 30,887	\$ 70,395	\$ 2,725,798

Shiawassee County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF NET ASSETS

December 31, 2004

	Jail Commissary	Soil Erosion	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 83,160	\$ 3,944	\$ 87,104
Noncurrent assets			
Capital assets, net of accumulated depreciation	3,275	-	3,275
TOTAL ASSETS	86,435	3,944	90,379
LIABILITIES			
Current liabilities			
Accounts payable	-	1,330	1,330
NET ASSETS			
Invested in capital assets	3,275	-	3,275
Unrestricted	83,160	2,614	85,774
TOTAL NET ASSETS	\$ 86,435	\$ 2,614	\$ 89,049

Shiawassee County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2004

	Jail Commissary	Soil Erosion	Total
OPERATING REVENUES			
Charges for services	\$ 35,711	\$ 3,874	\$ 39,585
OPERATING EXPENSES			
Operating supplies	23,259	5,313	28,572
Depreciation	<u>252</u>	<u>-</u>	<u>252</u>
TOTAL OPERATING EXPENSES	<u>23,511</u>	<u>5,313</u>	<u>28,824</u>
OPERATING INCOME (LOSS)	12,200	(1,439)	10,761
Net assets, beginning of year	-	4,053	4,053
Prior period adjustment	<u>74,235</u>	<u>-</u>	<u>74,235</u>
Net assets, end of year	<u>\$ 86,435</u>	<u>\$ 2,614</u>	<u>\$ 89,049</u>

Shiawassee County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2004

	Jail Commissary	Soil Erosion	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 35,711	\$ 3,874	\$ 39,585
Cash paid to suppliers	(23,259)	(3,983)	(27,242)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	12,452	(109)	12,343
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital equipment	(3,527)	-	(3,527)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,925	(109)	8,816
Cash and cash equivalents, beginning of year	74,235	4,053	78,288
Cash and cash equivalents, end of year	<u>\$ 83,160</u>	<u>\$ 3,944</u>	<u>\$ 87,104</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 12,200	\$ (1,439)	\$ 10,761
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation expense	252	-	252
Increase in accounts payable	-	1,330	1,330
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 12,452</u>	<u>\$ (109)</u>	<u>\$ 12,343</u>

Shiawassee County, Michigan

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

December 31, 2004

	Trust and Agency	Economic Development	Library Penal Fine
ASSETS			
Cash and cash equivalents	\$ 1,257,048	\$ 1,127	\$ 57,946
LIABILITIES			
Undistributed collections payable	\$ 237,575	\$ -	\$ 57,946
Due to other governmental units			
Federal/State	252,852	-	-
Local	469,156	1,127	-
Due to individuals and agencies	297,465	-	-
TOTAL LIABILITIES	\$ 1,257,048	\$ 1,127	\$ 57,946

Renovation	Total
\$ 56	\$ 1,316,177
\$ 56	\$ 295,577
-	252,852
-	470,283
-	297,465
\$ 56	\$ 1,316,177

Shiawassee County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - DRAINAGE DISTRICTS

December 31, 2004

	Debt Service		
	Spaulding Debt	Corunna Debt	Henderson Debt
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ -
Cash and cash equivalents - restricted	-	-	-
Special assessments receivable	-	-	-
Deferred expense	-	-	-
Advances to other funds	-	-	-
TOTAL ASSETS	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Advances from other funds	-	-	-
Advance from primary government	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-
FUND BALANCES			
Reserved for advances to other funds	-	-	-
Unreserved			
Designated for capital expenditures	-	-	-
TOTAL FUND BALANCES	-0-	-0-	-0-
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Capital Projects

Regular Drain	Revolving Drain	Revolving Drain Maintenance	Drain Equipment Revolving	Total
\$ 1,737,771	\$ 5,597	\$ 28,355	\$ 25,058	\$ 1,796,781
2,265,000	-	-	-	2,265,000
2,039,161	-	-	-	2,039,161
-	-	195,948	-	195,948
21,837	-	-	28,000	49,837
<u>\$ 6,063,769</u>	<u>\$ 5,597</u>	<u>\$ 224,303</u>	<u>\$ 53,058</u>	<u>\$ 6,346,727</u>
\$ 18,466	\$ -	\$ 4,466	\$ 499	\$ 23,431
-	-	49,837	-	49,837
-	-	170,000	-	170,000
1,462,700	-	-	-	1,462,700
1,481,166	-0-	224,303	499	1,705,968
21,837	-	-	28,000	49,837
4,560,766	5,597	-	24,559	4,590,922
4,582,603	5,597	-0-	52,559	4,640,759
<u>\$ 6,063,769</u>	<u>\$ 5,597</u>	<u>\$ 224,303</u>	<u>\$ 53,058</u>	<u>\$ 6,346,727</u>

Shiawassee County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - DRAINAGE DISTRICTS

December 31, 2004

Total fund balance - governmental funds \$ 4,640,759

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,125,000	
Accumulated depreciation is	<u>(346,791)</u>	
Capital assets, net		1,778,209

Long-term receivables are not available to pay for current period expenditures
and are therefore deferred in the funds. These consist of:

Deferred revenue		1,462,700
------------------	--	-----------

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

Bonds and loans payable	5,081,627	
Accrued interest payable	<u>29,236</u>	
		<u>(5,110,863)</u>

Net assets of governmental activities \$ 2,770,805

Shiawassee County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DRAINAGE DISTRICTS

Year Ended December 31, 2004

	Debt Service		
	Spaulding Debt	Corunna Debt	Henderson Debt
REVENUES			
Charges for services	\$ -	\$ -	\$ -
Interest	-	-	-
Other	-	73,275	20,984
TOTAL REVENUES	-0-	73,275	20,984
EXPENDITURES			
Public works	-	-	-
Debt service			
Principal	75,000	50,000	5,000
Interest and fiscal charges	55,350	23,275	15,984
TOTAL EXPENDITURES	130,350	73,275	20,984
EXCESS OF REVENUES (UNDER) EXPENDITURES	(130,350)	-0-	-0-
OTHER FINANCING SOURCES (USES)			
Operating transfers in	130,350	-	-
Operating transfers out	-	-	-
Bond and note proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	130,350	-0-	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING (USES)	-0-	-0-	-0-
Fund balances, beginning of year	-	-	-
Fund balances, end of year	\$ -0-	\$ -0-	\$ -0-

Capital Projects				
Regular Drain	Revolving Drain	Revolving Drain Maintenance	Drain Equipment Revolving	Total
\$ -	\$ -	\$ -	\$ 782	\$ 782
9,326	-	-	-	9,326
955,547	-	-	-	1,049,806
964,873	-0-	-	782	1,059,914
330,537	-	-	75,673	406,210
631,209	-	-	-	761,209
52,572	-	-	-	147,181
1,014,318	-0-	-0-	75,673	1,314,600
(49,445)	-0-	-0-	(74,891)	(254,686)
-	235	-	80,408	210,993
(210,993)	-	-	-	(210,993)
2,361,000	-	-	-	2,361,000
2,150,007	235	-0-	80,408	2,361,000
2,100,562	235	-0-	5,517	2,106,314
2,482,041	5,362	-	47,042	2,534,445
<u>\$ 4,582,603</u>	<u>\$ 5,597</u>	<u>\$ -0-</u>	<u>\$ 52,559</u>	<u>\$ 4,640,759</u>

Shiawassee County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - DRAINAGE DISTRICTS

Year Ended December 31, 2004

Net change in fund balances - total governmental funds **\$ 2,106,314**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	(35,417)
----------------------	----------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred revenue	(446,170)
------------------	-----------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt proceeds	\$ (2,361,000)	
Bond and note principal retirements	761,209	(1,599,791)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(19,047)
--	----------

Change in net assets of governmental activities	\$ 5,889
--	-----------------

Shiawassee County, Michigan

Component Unit Funds

BALANCE SHEET - COUNTY AIRPORT

December 31, 2004

	<u>Special Revenue</u>
ASSETS	
Cash and cash equivalents	\$ 144,342
Accounts receivable	<u>2,282</u>
TOTAL ASSETS	<u>\$ 146,624</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 855
Accrued liabilities	<u>683</u>
TOTAL LIABILITIES	1,538
FUND BALANCE	
Unreserved	
Undesignated	<u>145,086</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 146,624</u>

Shiawassee County, Michigan

Component Unit Funds

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - COUNTY AIRPORT

December 31, 2004

Total fund balance - governmental fund	\$ 145,086
---	-------------------

Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Note payable	<u>(18,428)</u>
--------------	-----------------

Net assets of governmental activities	<u>\$ 126,658</u>
--	--------------------------

Shiawassee County, Michigan

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - COUNTY AIRPORT

Year Ended December 31, 2004

	<u>Special Revenue</u>
REVENUES	
Intergovernmental - local	\$ 22,496
Charges for services	2,183
Interest and rents	36,935
Other	<u>5,540</u>
TOTAL REVENUES	67,154
EXPENDITURES	
Current	
Public works	79,606
Debt service	
Principal	5,631
Interest	<u>1,307</u>
TOTAL EXPENDITURES	<u>86,544</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(19,390)
Fund balance, beginning of year	168,546
Prior period adjustment	<u>(4,070)</u>
Fund balance, end of year	<u><u>\$ 145,086</u></u>

Shiawassee County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - COUNTY AIRPORT

Year Ended December 31, 2004

Net change in fund balances - total governmental funds	\$ (19,390)
---	--------------------

Amounts reported for governmental activities in the statement of activities are different because:

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Note principal retirements	<u>5,631</u>
Change in net assets of governmental activities	<u><u>\$ (13,759)</u></u>

Shiawassee County, Michigan
Component Unit Funds
BALANCE SHEET - COUNCIL ON AGING
December 31, 2004

	<u>Special Revenue</u>
ASSETS	
Cash and cash equivalents	\$ 249,395
Investments	145,020
Taxes receivable	219,218
Due from other governmental units	<u>36,010</u>
TOTAL ASSETS	<u><u>\$ 649,643</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 46,491
Deferred revenue	<u>233,747</u>
TOTAL LIABILITIES	280,238
FUND BALANCE	
Unreserved	
Undesignated	<u>369,405</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 649,643</u></u>

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for this component unit is not required as the component unit's fund balance was equal to the component unit's net assets as of December 31, 2004.

Shiawassee County, Michigan

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - COUNCIL ON AGING

Year Ended December 31, 2004

	<u>Special Revenue</u>
REVENUES	
Property taxes	\$ 233,689
Intergovernmental	433,280
Charges for services	61,471
Interest	7,482
Other	<u>48,462</u>
TOTAL REVENUES	784,384
EXPENDITURES	
Current	
Health and welfare	<u>843,186</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(58,802)
Fund balance, beginning of year	45,773
Prior period adjustments	<u>382,434</u>
Fund balance, end of year	<u><u>\$ 369,405</u></u>

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended December 31, 2004.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
Shiawassee County
Corunna, Michigan

We have audited the financial statements of Shiawassee County as of and for the year ended December 31, 2004, and have issued our report thereon dated April 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shiawassee County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Shiawassee County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable conditions:

2004-1 BANK RECONCILIATIONS

Condition: During the course of our audit, it was noted that the County had not reconciled the pooled cash bank account to the general ledger in a timely manner throughout the entire year. The reconciling of these amounts to the general ledger was not performed until just before the December 31, 2004 year-end audit fieldwork in calendar year 2005. It was noted that various general ledger posting errors and unrecorded transactions had not been properly accounted for until the reconciliation was complete. It was also noted that the District Court bank reconciliations for the two (2) accounts under the control of the Court were several months behind when audit fieldwork started after year-end.

Criteria: Reconciliation of all bank accounts in a timely manner is one of the most important procedures for maintaining a sound internal control structure over all cash activities. The failure to reconcile cash also results in the inability to monitor cash flows to assure adequate funds are on hand to meet cash needs. Timely bank reconciliations are a critical accounting function.

Effect: As a result of not reconciling the County's bank accounts in a timely manner, reconciling items were not identified and resolved until a significant time after each month end.

2004-1 BANK RECONCILIATIONS - CONTINUED

Recommendation: We recommend the County assure all bank reconciliations be performed and approved by the appropriate individuals on a timely basis and any adjustments to the general ledger or at the bank be handled immediately. This process will not only assure accurate cash balances but will be useful for the County to monitor cash flow.

Corrective Action Response: Management of the County is currently reviewing procedures related to timely bank reconciliations and will implement necessary changes in order to comply with the cited requirements.

2004-2 BANK ACCOUNTS NOT RECORDED

Condition: During the course of our audit, we noted nine (9) bank accounts that are not recorded in the County's general ledger. The accounts were in the jail, district court, juvenile court, medical care facility, and council on aging. All of these accounts were recorded via adjusting entries after year-end and are reflected in the audited financial statements.

Criteria: The recording of all cash accounts is necessary to demonstrate stewardship over all of the activities that have been entrusted to the County.

Effect: The County has failed to identify all of the bank accounts that they have custody over. As a result, the County has not maintained adequate internal control over cash activities.

Recommendation: We recommend that the County take steps to ensure that all bank accounts are properly identified and recorded in the County's general ledger in the future. This would include not just recording the balances at year-end but also all the activity throughout the year.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification of all bank accounts and will implement necessary changes in order to comply with the cited requirements.

2004-3 SEPARATION OF DUTIES - DISTRICT COURT

Condition: During the course of our audit, it was noted that the head clerk in the District Court was involved with writing and signing checks, bank reconciliations, daily balancing processes, and is also involved in the receipting of cash and can void receipts. This is all performed with no supervisory review of any of these functions by the Court Administrator. As a result, the County assumes a higher risk in safeguarding assets.

Criteria: Paragraph D1 of section 6-05, Michigan Court Administration Reference Guide, states: "Duties and responsibilities for handling receipts and disbursements should be arranged and separated so that an employee does not perform more than one of the following functions:

- a. Opening the mail.
- b. Receipting payments.
- c. Balancing receipts to the accounting records.
- d. Performing the bank reconciliation.

Effect: District Court management must realize that a greater risk in safeguarding assets will exist if duties and responsibilities are not appropriately arranged and separated. In smaller courts, where the number of employees is limited and duties cannot be adequately separated, court management must provide a greater review and supervision of employee functions and procedures."

Recommendation: It is recommended that the District Court appropriately arrange and separate duties and responsibilities so that an adequate internal control system exists to safeguard receipts. If the court cannot separate duties within the office to provide an adequate internal control system, the court must realize that a greater risk in safeguarding assets will exist.

There appears to be a sufficient number of employees in the office of the District Court so that procedures can be implemented that will strengthen the internal control system and, accordingly, reduce the risk in safeguarding receipts and disbursements. The court management must provide greater review and supervision of employees, in addition to periodically reviewing their duties to ensure that they have not changed, resulting in a further weakening of the internal control system.

2004-3 SEPARATION OF DUTIES - DISTRICT COURT - CONTINUED

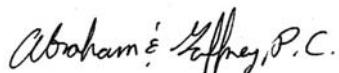
Corrective Action Response: Management of the County is currently reviewing procedures related to separation of duties at the District Court in order to comply with the cited requirements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-1, 2004-2, and 2004-3 to be material weaknesses. Additionally, we noted other matters involving the internal control over financial reporting, which we have reported to management of Shiawassee County, Michigan in a separate letter dated April 15, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shiawassee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted other matters involving compliance and other matters that we have reported to management of Shiawassee County, in a separate letter dated April 15, 2005.

This report is intended solely for the information and use of the administration and Board of Commissioners of Shiawassee County, the pass-through grantors, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 15, 2005

Shiawassee County, Michigan

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

December 31, 2004

Shiawassee County, Michigan

TABLE OF CONTENTS

December 31, 2004

	<u>Page</u>
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	1-2
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	3-7
Notes to Schedule of Expenditures of Federal Awards	8-9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	10-11
SCHEDULE OF FINDINGS	12-14
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	15

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
of Shiawassee County
Corunna, Michigan

Compliance

We have audited the compliance of Shiawassee County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that is applicable to the major Federal program for the year ended December 31, 2004. Shiawassee County's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal programs are the responsibility of Shiawassee County's management. Our responsibility is to express an opinion on Shiawassee County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Shiawassee County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Shiawassee County's compliance with those requirements.

In our opinion, Shiawassee County complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending December 31, 2004. However, the results of our auditing procedures disclosed noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings as item 2004-4.

Internal Control Over Compliance

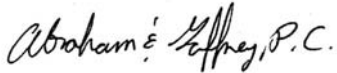
The management of Shiawassee County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Shiawassee County's internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major Federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of Shiawassee County as of and for the year ended December 31, 2004, and have issued our report thereon dated April 15, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Shiawassee County's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners and management of Shiawassee County, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 15, 2005

Shiawassee County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantors Number</u>	<u>Current Year Expenditures</u>
U.S DEPARTMENT OF AGRICULTURE			
Passed through Michigan Department of Community Health			
Women, Infants and Children (WIC)			
FY 03-04 Regular	10.557	XX4W1006	\$ 175,834
FY 04-05 Regular		XX4W1006	<u>75,161</u>
			250,995
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through Michigan State Housing Development Authority			
Community Development Block Grant (CDBG) Program			
State's Program	14.228		
03-04 (Housing)		MSC2004814MDC	38,886
Home Investment Partnerships Program	14.239		
02-04 Home		M20020814HOA	144,470
U.S. DEPARTMENT OF JUSTICE			
Passed through Michigan Family Independence Agency			
Juvenile Accountability	16.523		
2003 Grant		JAIBG-03-78001	10,099
2004 Grant		JAIBG-04-78001	<u>1,965</u>
			12,064
BASIC Grant	16.540		
03-04		78	8,951
04-05		78	<u>2,134</u>
			11,085
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Passed through Michigan Department of Environmental Quality			
State Indoor Radon Grant	66.032		
FY 03-04 ^(e)		N/A	1,000
State Grants to Reimburse Operations of Small Water Systems for Training and Certification Cost	66.471		
FY 03-04		N/A	6,200

Shiawassee County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantors Number</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through State Department of Office on Services to the Aging and Valley Area Agency on Aging			
Title III-B Special Programs for the Aging ^(a) Grants for In-home Services, Chore, CCS, and Senior Centers	93.044		
FY 03-04		SCOA-04	\$ 29,480
FY 04-05		SCOA-04	<u>16,001</u>
			45,481
Title III-C Special Programs for the Aging ^(a) FY 03-04 Nutrition Congregate	93.045	SCOA-NUTR-04	29,683
FY 04-05 Nutrition Congregate		SCOA-NUTR-04	6,909
FY 03-04 Nutrition Home Delivered Meals		SCOA-NUTR-04	61,710
FY 04-05 Nutrition Home Delivered Meals		SCOA-NUTR-04	<u>24,766</u>
			123,068
Title III-E National Family Caregiver Support FY 03-04	93.052	SCOA-04	16,909
FY 04-05		SCOA-04	<u>1,407</u>
			18,316
Nutrition Services Incentive Program FY 03-04 Nutrition Congregate	93.053	SCOA-NUTR-04	8,553
FY 04-05 Nutrition Congregate		SCOA-NUTR-04	2,087
FY 03-04 Nutrition Home Delivered Meals		SCOA-NUTR-04	39,682
FY 04-05 Nutrition Home Delivered Meals		SCOA-NUTR-04	<u>10,046</u>
			60,368
Passed through Michigan Department of Community Health			
Abstinence Education FY 03-04	93.210	1HIDMC00119	93,561
Immunization Grants ^(d) FY 03-04 IAP	93.268	H23CCH522556	22,464
FY 04-05 IAP		H23CCH522556	8,702
FY 03-04 Provider Site Visits		N/A	3,600
FY 03-04 Vaccine Supply		N/A	170,726
FY 04-05 Vaccine Supply		N/A	86,580
FY 04-05 Vaccine Handling ^(e)		H23CCH522556	<u>148</u>
			292,220

Shiawassee County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantors Number</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED			
Passed through Michigan Department of Community Health - continued			
Centers for Disease Control and Prevention - Investigations and Technical Assistance ^(d)	93.283		
FY 03-04			
Focus A		CCU517018	\$ 82,167
Focus B		CCU517018	62,287
Focus E		CCU517018	5,954
Focus F		CCU517018	21,012
Focus G		CCU517018	19,556
FY 04-05			
Focus A		CCU517018	20,202
Focus B		CCU517018	11,850
Focus E		CCU517018	980
Focus F		CCU517018	3,052
Focus G		CCU517018	<u>2,809</u>
			229,869
Medicaid Assistance Program			
In home Services and Waiver	93.778		
FY 03-04		SCOA-04	35,144
FY 04-05		SCOA-04	<u>11,556</u>
			46,700
Passed through Michigan Family Independence Agency and Michigan Department of Community Health Medical Assistance Program (Title XIX Medicaid)	93.778		
FY 03-04 Outreach & Advocacy ^(e)		5XX05MI504	3,403
FY 04-05 Outreach & Advocacy ^(e)		5XX05MI504	2,339
FY 03-04 Care Coordination ^(f)		B1MIMCHS	6,140
FY 03-04 Case Management		B1MIMCHS	403
FY 04-05 Case Management		B1MIMCHS	<u>202</u>
			<u>12,487</u>
			59,187
Passed through Michigan Family Independence Agency			
Child Support Enforcement ^(d) (Title IV-D)	93.563		
Cooperative Reimbursement - Friend of the Court ^(b)			
03-04		CS/FOC-04-78001	374,382
04-05		CS/FOC-05-78001	124,919

Shiawassee County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantors Number</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED			
Passed through Michigan Family Independence Agency - continued Child Support Enforcement ^(d) (Title IV-D) - continued	93.563		
Cooperative Reimbursement - Prosecuting Attorney ^(b)			
03-04		CS/PA-04-78002	\$ 95,339
04-05		CS/PA-05-78002	33,526
Medical Support Collection ^(b) - Friend of the Court FY 03-04		CS/MED-04-78001	-
Friend of the Court FY 04-05		CS/MED-05-78001	-
Incentive Payments ^(c) 2004 Regular		N/A	<u>156,060</u>
			784,226
Passed through Michigan Department of Community Health			
BCCP - Early Detection	93.919		
03-04 CDI		U57CCU506738	18,713
04-05 CDI		U57CCU506738	<u>12,926</u>
			31,639
Passed through Michigan Department of Community Health			
Maternal and Child Health Services Block Grant to the States	93.994		
FY 03-04 Local MCH		B1MIMCHS	30,350
FY 04-05 Local MCH		B1MIMCHS	1,773
FY 03-04 Case Management Services		B1MIMCHS	5,247
FY 04-05 Case Management Services		B1MIMCHS	<u>3,649</u>
			41,019
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Michigan State Police State Homeland Security	97.004		
2003 SHSGP-SAP		N/A	17,069
2003 SHSGP - Exercise Grant		N/A	1,824
2003 SHSGP - Training Part II		N/A	3,673
2003 SHSGP - CBRNE - Equipment		N/A	63,991
2002 SDPP - Exercise Grant		N/A	<u>236</u>
			86,793

Shiawassee County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantors Number</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF HOMELAND SECURITY - CONTINUED			
Passed through Michigan State Police - continued			
Emergency Management Performance Grant FY 04 Regular	97.042	N/A	\$ 37,120
Emergency Operations Planning 2002 Planning	97.051	N/A	<u>16,658</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 2,384,225</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2004

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Shiawassee County, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements, which are reconciled in Note C.

Federal Awards of the Shiawassee County Road Commission are excluded from the accompanying Schedule of Expenditures of Federal Awards. These component units are audited by other auditors with reports issued under separate covers. Single Audits, where applicable, were conducted by those other auditors and included in the applicable reports. To view copies of those reports contact the respective administrative offices of the component units or the Shiawassee County Administrators office.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a)-(f) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Programs considered a cluster by the U.S. Department of Health and Human Services.
- (b) Reimbursements of these contracts are passed through the State Family Independence Agency. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on 66% of total contract expenditures.
- (c) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues.
- (d) Denotes programs tested as "major programs".
- (e) Reimbursements of these contracts are passed through the State. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on the following approximate percentages of Federal participation:

<u>Program</u>	<u>CFDA Number</u>	<u>Approximate Percent</u>
State Indoor Radon Grant	66.032	50.0 %
Immunization Grants - Vaccine Handling	93.268	25.0
Medicaid Outreach & Advocacy	93.778	50.0

- (f) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.

Shiawassee County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

December 31, 2004

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the December 31, 2004, basic financial statements to the expenditures of the County administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT			
GENERAL FUND			
CRP - Prosecuting Attorney	\$ 132,823	\$(3,958)	\$ 128,865
CRP - Friend of the Court	512,891	(13,590)	499,301
ADC Maintenance Assistance	156,060	-	156,060
Emergency Management	140,571	-	140,571
Other Programs	<u>1,998,877</u>	<u>(1,998,877)</u>	<u>-0-</u>
TOTAL GENERAL FUND	2,941,222	(2,016,425)	924,797
SPECIAL REVENUE FUNDS			
Health Department	2,191,625	(1,232,635)	958,990
Housing Rehabilitation	189,588	(6,232)	183,356
JAIBG	12,064	-	12,064
Child Care Probate	266,078	(254,993)	11,085
Other Programs	<u>269,855</u>	<u>(269,855)</u>	<u>-0-</u>
TOTAL SPECIAL REVENUE FUNDS	<u>2,929,210</u>	<u>(1,763,715)</u>	<u>1,165,495</u>
TOTAL PRIMARY GOVERNMENT	5,870,432	(3,780,140)	2,090,292
COMPONENT UNITS			
County Airport	22,496	(22,496)	-0-
Council on Aging	433,280	(139,347)	293,933
Road Commission	<u>9,680,473</u>	<u>(9,680,473)</u>	<u>-0-</u>
TOTAL COMPONENT UNITS	<u>10,136,249</u>	<u>(9,842,316)</u>	<u>293,933</u>
TOTAL ENTITY-WIDE	<u>\$ 16,006,681</u>	<u>\$(13,622,456)</u>	<u>\$ 2,384,225</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
of Shiawassee County
Corunna, Michigan

We have audited the financial statements of Shiawassee County, Michigan as of and for the year ended December 31, 2004, and have issued our report thereon dated April 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

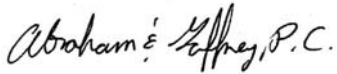
In planning and performing our audit, we considered Shiawassee County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Shiawassee County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 2004-1, 2004-2, and 2004-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-1, 2004-2, and 2004-3 to be material weaknesses. Additionally, we noted other matters involving the internal control over financial reporting, which we have reported to management of Shiawassee County, Michigan in a separate letter dated April 15, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted other matters involving compliance and other matters that we have reported to management of Shiawassee County in a separate letter dated April 15, 2005.

This report is intended solely for the information of management, the Board of Commissioners and management of Shiawassee County, pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 15, 2005

Shiawassee County, Michigan

SCHEDULE OF FINDINGS

Year Ended December 31, 2004

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There were three (3) reportable conditions disclosed by the audit of the basic financial statements, as discussed below in 2004-1, 2004-2, and 2004-3. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements. The County did not qualify as a low-risk auditee.

An unqualified opinion was issued on compliance for major programs. We disclosed one (1) finding related to internal controls or compliance related to the major program tested as detailed below in 2004-4.

The major programs tested to cover 50 percent of the total Federal expenditures were the Child Support Enforcement (Title IV-D) (CFDA 93.563), CDC-Investigations and Technical Assistance (CFDA 93.283), and Immunization Grants (CFDA 93.268) programs. Total Federal expenditures for the year ended December 31, 2004 for the major programs was \$1,306,315, which is approximately 55 percent of total Federal expenditures.

The County had one (1) Type A program, the Child Support Enforcement Program (Title IV-D) (CFDA 93.563). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

2004-1 BANK RECONCILIATIONS

Condition: During the course of our audit, it was noted that the County had not reconciled the pooled cash bank account to the general ledger in a timely manner throughout the entire year. The reconciling of these amounts to the general ledger was not performed until just before the December 31, 2004 year-end audit fieldwork in calendar year 2005. It was noted that various general ledger posting errors and unrecorded transactions had not been properly accounted for until the reconciliation was complete. It was also noted that the District Court bank reconciliations for the two (2) accounts under the control of the Court were several months behind when audit fieldwork started after year-end.

Criteria: Reconciliation of all bank accounts in a timely manner is one of the most important procedures for maintaining a sound internal control structure over all cash activities. The failure to reconcile cash also results in the inability to monitor cash flows to assure adequate funds are on hand to meet cash needs. Timely bank reconciliations are a critical accounting function.

Effect: As a result of not reconciling the County's bank accounts in a timely manner, reconciling items were not identified and resolved until a significant time after each month end.

Recommendation: We recommend the County assure all bank reconciliations be performed and approved by the appropriate individuals on a timely basis and any adjustments to the general ledger or at the bank be handled immediately. This process will not only assure accurate cash balances but will be useful for the County to monitor cash flow.

Corrective Action Response: Management of the County is currently reviewing procedures related to timely bank reconciliations and will implement necessary changes in order to comply with the cited requirements.

2004-2 BANK ACCOUNTS NOT RECORDED

Condition: During the course of our audit, we noted nine (9) bank accounts that are not recorded in the County's general ledger. The accounts were in the jail, district court, juvenile court, medical care facility, and council on aging. All of these accounts were recorded via adjusting entries after year-end and are reflected in the audited financial statements.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended December 31, 2004

FINDINGS/NONCOMPLIANCE - CONTINUED

Reportable Conditions Related to Internal Control Over the Financial Statements - continued.

2004-2 BANK ACCOUNTS NOT RECORDED - CONTINUED

Criteria: The recording of all cash accounts is necessary to demonstrate stewardship over all of the activities that have been entrusted to the County.

Effect: The County has failed to identify all of the bank accounts that they have custody over. As a result, the County has not maintained adequate internal control over cash activities.

Recommendation: We recommend that the County take steps to ensure that all bank accounts are properly identified and recorded in the County's general ledger in the future. This would include not just recording the balances at year-end but also all the activity throughout the year.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification of all bank accounts and will implement necessary changes in order to comply with the cited requirements.

2004-3 SEPARATION OF DUTIES - DISTRICT COURT

Condition: During the course of our audit, it was noted that the head clerk of the District Court was involved with writing and signing checks, bank reconciliations, daily balancing processes, and is also involved in the receipting of cash and can void receipts. This is all performed with no supervisory review of any of these functions by the Court Administrator. As a result, the County assumes a higher risk in safeguarding assets.

Criteria: Paragraph D1 of section 6-05, Michigan Court Administration Reference Guide, states: "Duties and responsibilities for handling receipts and disbursements should be arranged and separated so that an employee does not perform more than one of the following functions:

- a. Opening the mail.
- b. Receipting payments.
- c. Balancing receipts to the accounting records.
- d. Performing the bank reconciliation.

Effect: District Court management must realize that a greater risk in safeguarding assets will exist if duties and responsibilities are not appropriately arranged and separated. In smaller courts, where the number of employees is limited and duties cannot be adequately separated, court management must provide a greater review and supervision of employee functions and procedures."

Recommendation: It is recommended that the District Court appropriately arrange and separate duties and responsibilities so that an adequate internal control system exists to safeguard receipts. If the court cannot separate duties within the office to provide an adequate internal control system, the court must realize that a greater risk in safeguarding assets will exist.

There appears to be a sufficient number of employees in the office of the District Court so that procedures can be implemented that will strengthen the internal control system and, accordingly, reduce the risk in safeguarding receipts and disbursements. The court management must provide greater review and supervision of employees, in addition to periodically reviewing their duties to ensure that they have not changed, resulting in a further weakening of the internal control system.

Corrective Action Response: Management of the County is currently reviewing procedures related to separation of duties at the District Court in order to comply with the cited requirements.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended December 31, 2004

FINDINGS/NONCOMPLIANCE - CONTINUED

Findings Related to Compliance with Requirements Related to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

2004-4 VACCINE INVENTORY

U.S. Department of Health and Human Services, passed through Michigan Department of Community Health. Immunization grants, FY03-04 and 04-05 Vaccine Supply (CFDA 93.268).

Condition: The vaccine inventory was not properly accounted for with details being retained of beginning and ending inventory balances and amounts used and received and all of this data being reported within the Health Department's general ledger. Data was gathered at audit time and this information has been included in the audited financial statements at December 31, 2004.

Criteria: Internal controls should be in place that provides reasonable assurance that vaccine inventory is tracked accurately on a monthly basis.

Effect: There was no activity related to beginning and ending inventory and amounts used and received reported in the Health Department's general ledger throughout the year until significant amount of time after year-end.

Recommendation: We recommend the Department review their inventory procedures to assure that perpetual inventory records are complete and accurate in the future. We also recommend the Department implement reconciliation procedures to assure that the monthly reporting to the State of Michigan agrees with internal perpetual inventory records.

Corrective Action Response: Management of the Health Department is currently reviewing procedures and internal controls related to inventorying vaccine supply and will implement necessary changes to include an independent review of the Local Health Department Monthly Vaccine Inventory Report to assure it is complete and accurate.

Shiawassee County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2004

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior audit findings were reported in the prior auditors report.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings were reported in the prior auditors report.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings were reported in the prior auditors report.

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MANAGEMENT LETTER

To the Board of Commissioners
of Shiawassee County
Corunna, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of Shiawassee County, Michigan for the year ended December 31, 2004. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Various aspects of decentralized accounting procedures at various departments should be analyzed and modified accordingly.

- A. During our decentralized receipts testing at the building and grounds department we noted that the receipts were not prenumbered.

We suggest the department utilize prenumbered receipts for all funds collected in the department. These receipts should then be reconciled to the funds that are periodically deposited.

- B. During our decentralized receipts testing at the equalization department we noted that the receipts were not prenumbered and funds that had been collected and not deposited yet with the County Treasurer were not maintained in a secure area until depositing with the Treasurer's office. We also noted that supporting documentation and receipts could not be located for all transactions.

We suggest the department utilize prenumbered receipts for all funds collected in the department. These receipts should then be reconciled to the funds that are periodically deposited and all documentation should be retained for audit purposes. Also, all funds should be maintained in a secured (locked) location prior to depositing with the County Treasurer's office.

- C. During our decentralized receipts testing at community corrections we noted that donations were being collected and utilized as petty cash for small office purchases and not receipted and deposited into the County's accounting system.

We suggest receipts be written for all funds received by the department and those receipts be reconciled and periodically deposited intact with the County Treasurer's office.

1. Various aspects of decentralized accounting procedures at various departments should be analyzed and modified accordingly - continued.

- D. During our decentralized receipts testing at the Prosecuting Attorney's office we noted that the receipts were not prenumbered, that receipts were not written for all funds collected and there was no formal reconciliation being done between the funds being deposited with the County Treasurer's office and the actual receipts present.

We suggest the department utilize prenumbered receipts for all funds collected in the department. These receipts should then be reconciled to the funds that are periodically deposited.

- E. During our decentralized receipts testing at the District Court we noted that funds that had been collected throughout the day and not deposited at the bank were kept in a cash drawer but this drawer was not locked and several employees had access to this area.

We suggest the Court implement a procedure to assure these funds are maintained in a secure area until deposited.

2. Various jail operational procedures should be analyzed and modified accordingly.

- A. During our decentralized receipts testing we noted that receipts for certain types of funds (412 Housing, PBT, Bail Bonds) were not prenumbered and there was no way to reconcile these receipts back to the amount reflected on the monthly deposit advice.

We suggest the department utilize prenumbered receipts for all funds collected in the department. These receipts should then be reconciled to the funds that are periodically deposited.

- B. During our analysis and testing of the internal control structures, we noted that one individual in the jail performed numerous accounting functions (i.e., receipts, disbursements, deposits, cash and bank reconciliations).

The main concept of an internal control structure is to assure that no one person handles all aspects of processing a transaction. The jail's current processes allow an individual to process all transactions.

We suggest the County take steps to ensure that accounting duties are segregated to extent possible in the jail. This will increase efficiency in the processing of transactions and strengthen the internal control systems. At a minimum, the billing, receipting, depositing, and bank reconciliation process should be segregated. Also, we suggest that the applicable supervisor review the bank reconciliation and initial that it was reviewed.

- C. During our analysis and testing of the internal control structure, we noted that in the jail there is inadequate control over the blank check stock. We noted that blank checks are kept in an area where they could be accessed by anyone who enters the room.

We suggest that proper controls be put in place over the blank check stock. Blank checks should be maintained in a locked drawer where only authorized check signers have access.

- D. We noted that bank reconciliations are not reviewed by a supervisor on a monthly basis in the jail. This step is a critical part of management oversight, especially in an environment where limited segregation of duties is present.

We suggest that formal supervisory review procedures be put in place for monthly bank reconciliations in the jail. The bank reconciliation should be reviewed, any discrepancies promptly investigated, and signed off by a responsible official.

- E. During our audit, it was noted that the jail had several outstanding checks listed on inmate trust bank reconciliations that were more than one (1) year old. The Michigan Public Act 29 of 1995 provides that the Department report and escheat unclaimed property to the State of Michigan.

We suggest the jail attempt to contact the payees in an effort to clear old outstanding checks. In the event that the rightful property owners cannot be located, we suggest the County review their unclaimed property and escheat funds to the State of Michigan as necessary.

2. Various jail operational procedures should be analyzed and modified accordingly - continued.

- F. During our audit, it was noted that jail commissary profits were being retained by the jail in a separate bank account to be used for jail activities but those funds were not recorded in the County general ledger, thus circumventing the budgetary process and were never audited.

Subsequent to year end, based on our suggestion, the County established a jail commissary fund. We further suggest that all commissary activity be recorded in this fund throughout the year and the transactions be subject to board approval.

- G. During our analysis of the inmate trust account it was noted that the inmate trust bank account is not being reconciled to an inmate listing at the end of each month. Also it was noted that this bank account had more than just inmate trust funds in it. It appeared to have old cumulative profits from prior commissary sales in this account too.

We suggest the jail move the old cumulative profits out of this inmate trust account to the jail commissary fund which was established after year-end. Once that is done the jail should then be able to reconcile this trust and agency account balance to a monthly listing of individual inmate balances.

3. A reconciliation of trust and agency liability accounts to supporting documentation should be performed.

During the course of our audit it was noted that the several trust and agency liability accounts had not been reconciled to supporting documentation for several years.

We suggest the significant trust agency liability accounts be reconciled at a specific point in time, and any necessary adjustments to the general ledger be made.

4. The County should review the status of individual fund equities (deficits) near year-end.

As noted in the financial statements, the County had one (1) fund that ended the year in a deficit financial position. As a result, the County will be required to submit a deficit reduction plan to the State of Michigan for these funds.

We suggest the County review the status of all funds near year-end and make appropriate adjustments when possible to eliminate deficits.

5. The County should establish a capitalization threshold in order to track material assets purchased.

During the course of our audit, it was noted the County did not have a formal written capitalization threshold policy in place at year-end. This policy would set forth, among other things, a dollar threshold for items purchased by the County, which would be considered material, long-lived assets that should be capitalized and depreciated.

We suggest the County adopt a capitalization policy.

6. A detailed accounting procedures manual should be developed.

The County does not have an accounting procedures manual in existence to document detailed procedures such as disbursements, receipts, payroll, reporting, general ledger, and other accounting procedures.

We suggest the County consider developing an accounting procedures manual to document procedures that are in place.

7. The County should adopt a written credit card policy.

During the course of the audit it was noted that the County utilizes credit cards. An inquiry of County personnel indicated that the County had not adopted a formal written credit card policy as required by PA 266 of 1955 (MCL 129.241).

It was noted that after year-end the County did adopt a credit card policy. We suggest that the County review their credit card policy that was recently adopted to assure it complies with the State of Michigan requirements. The policy must include and/or address the following items:

- a. An officer or employee designated to oversee credit card issuance, accounting, monitoring, and compliance with the policy;
- b. The use of the credit card only for the purchase of goods and services for the official business of the local unit;
- c. User of the credit card must submit documentation of what goods and services were purchased, the cost, the date of purchase, and the official business for which purchase was made;
- d. Office or employee is responsible for credit card protection and custody and must report lost or stolen cards;
- e. Credit card to be returned to local unit at termination of official or employee;
- f. Internal control systems over the use of credit cards;
- g. Approval of credit card invoices prior to payment;
- h. The balance, including interest, must be paid within 60 days of the initial statement date;
- i. Disciplinary measures for unauthorized use of a credit card; and
- j. Other matters the local unit considers advisable.

8. Library Special Revenue Fund should be evaluated.

During 2004 the County Library became a district library by a vote of the people and therefore was a separate and distinct entity at December 31, 2004, but the County still has the Library Fund within the County's records that was active and a significant amount of cash still was on hand at year-end.

We suggest the County evaluate this fund and determine how much should be retained for future potential benefit claims. The remaining funds should then be turned over to the District Library.

9. Drain office should evaluate their cash reconciliation process.

During the course of our audit it was determined that the Drain office tracks cash balances by individual drains on a drain ledger and so does the Treasurer's office. These two (2) sets of records were not reconciled to each other during 2004.

We suggest the Drain office review this process and determine if there is truly a need to do this by-drain cash reconciliation. If they determine it is necessary, they should assure that their records are in agreement with the County Treasurer's office who then reconciles these cash balances, in total, to the County's official general ledger and bank reconciliations.

10. Capital asset listings should be evaluated to assure all necessary capital assets are included and there is an adequate level of detail present.

During our analysis of capital assets that although the County has some historical cost information on a majority of their assets, there is a question as to the completeness of the capital asset listings. Also, during our analysis of drain infrastructure capital assets it was noted that the inventory listing of drains included only three (3) drains with a historical cost of approximately \$2.12 million, yet there was drain debt for approximately nine (9) drains for over \$5.0 million.

We suggest the County perform a detailed analysis of the current capital asset listing to assure accuracy and completeness that all County owned assets that meet the capitalization threshold are present on the list and that they are valued accurately. We further suggest the Drain office evaluate the current listing to assure all drains are accounted for at their historical or estimated historical value.

11. Activity in various drain funds should be evaluated.

During our analysis of the drain funds and the activity flowing between three (3) of the funds (601, 639, and 801), it appeared this interfund activity was not being reported correctly.

We suggest the interfund activity between these three (3) funds be analyzed and assure that all interfund activity is being reported correctly in all funds.

12. Grant information should be kept in a central location.

As we were testing the provisions of the Federal and State grant programs we discovered the associated information is located in several different offices around the County. Instituting a central location for all grant related information would facilitate the audit process and allow easier access to this information for management purposes.

We suggest that the County assemble all documentation related to Federal and State grants and keep it in a centralized location.

13. Revenues and expenditures should be entered in detail.

An analysis of the detailed transactions for the County revealed several funds where the revenues and expenditures were posted to generic revenue and expenditure "control" accounts rather than to a specific line item. In order to provide the necessary detail of the activity of the County line items, revenues and expenditures should be reported in accordance with the State of Michigan's chart of accounts.

We suggest the County review the required chart of accounts and implement changes to the necessary funds.

14. The delinquent tax revolving and soil erosion funds should be correctly reported as Enterprise funds in the County's general ledger.

In 2002 the Michigan Department of Treasury issued an updated Uniform Chart of Accounts and a corresponding numbered letter that addressed the fund type changes. It indicated that delinquent tax revolving funds were to be reclassified from Internal Service Funds to Enterprise Funds. Also, in the County's general ledger the soil erosion fund was numbered as a debt service fund. This fund number is inconsistent with the intent of this fund. These changes were made in preparing the annual financial statements, but were not properly reflected in the County's accounting records as of the last day of fieldwork.

We suggest the County comply with the Uniform Chart of Accounts by reclassifying the applicable funds to Enterprise Funds.

15. Budgets should be adopted for all funds and monitored and amended when necessary.

As noted in the annual financial statements, some of the budgeted activities of the County exceeded the amounts appropriated. The variances noted were in the General and Special Revenue Funds. It was also noted that not all Special Revenue Funds had budgets adopted for 2004.

The Michigan Public Act 621 of 1978, as amended, provides that the County shall not incur expenditures in excess of the amounts appropriated. The County is also required to adopt budgets for the General and all Special Revenue Funds.

We suggest the County adopt budgets for all applicable funds and monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

16. Medical Care Facility timesheets should be formally approved.

During our analysis of the payroll process at the Medical Care Facility, we noted six (6) of the ten (10) timesheets that we selected for testing did not have supervisory initials present. Based on our discussions related to the payroll process it was indicated that all timesheets required a reviewers initials to be present.

We suggest all applicable timesheets at the Medical Care Facility be properly approved and documented prior to submission for payment and all timesheet documentation should be retained for audit purposes.

17. The Medical Care Facility should report all aspects of the fund on the full accrual basis of accounting.

During our analysis of the Medical Care Facility, it was noted that the Facility was an Enterprise Fund which reports its financial activities on the full accrual basis of accounting for everything except property taxes. The 2004 tax levy was reported as a receivable and deferral which is not in accordance with generally accepted accounting principles (GAAP) for an Enterprise Fund. An audit entry was made to properly report this activity in accordance with GAAP.

We suggest the Medical Care Facility report all activities within their fund in accordance with GAAP for audit purposes.

18. The Medical Care Facility should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Medical Care Facility may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, billing, etc.).

While this is a common occurrence in small organizations due to the limited number of employees, the Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Medical Care Facility review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Board provide a greater review and supervision of employee functions and procedures.

19. Various aspects of the Council on Aging activities should be analyzed and modified accordingly.

A. During our consideration and assessment of fraud risk, we noted that the Council may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, bank reconciliations, etc.).

While this is a common occurrence in small organizations due to the limited number of employees, the County should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the County review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the County provide a greater review and supervision of employee functions and procedures.

B. The Council's decentralized accounting system currently does not utilize a "general ledger", which would provide a double entry accounting system to help assure reconciliation and provide expense detail by program area.

We suggest the Council implement a general ledger accounting system to better account for the Council's financial activity.

C. During our decentralized receipts testing we noted that there were no true controls over cash collections for donations, etc. at either site operated by the Council (i.e., dual counting, receipts, etc.). One individual at each site was in control of the entire process. We also noted that receipts were not always written for all money that came in and some amounts had no alternative documentation retained to support the amounts received.

19. Various aspects of the Council on Aging activities should be analyzed and modified accordingly - continued.

We suggest prenumbered receipts be written for all funds collected and those funds be reconciled and periodically deposited. For small cash donations a receipt log and some alternative could be used for support. We also suggest for cash collections that at least two (2) individuals be involved in the counting process.

- D. During our analysis of the Council on Aging it was determined that they were actually a nonprofit entity formed under IRC 501 (c)(3) as a separate entity from the County. Based on a detailed analysis of this entity it is not clear whether or not they qualify as a component unit of Shiawassee County.

We suggest the County evaluate this organization in 2005 to determine if they truly are a component unit or if their financial information should be excluded from the County's financial statements in the future.

20. The Health Department should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Health Department may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, payroll, etc.). We noted that one (1) individual can set up a new vendor, enter invoices, and cut and subsequently mail the signed checks. We also noted the payroll summary reports are submitted by one (1) employee without management oversight.

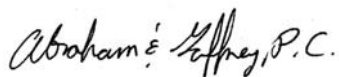
While these are common occurrences in small organizations due to the limited number of employees, the Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Health Department review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Board provide a greater review and supervision of employee functions and procedures. The Health Department should also assure any information submitted for payroll should be reviewed and formally approved by an appropriate supervisor.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated April 15, 2005.

This report is intended solely for the use of management and the Board of Commissioners of Shiawassee County and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 15, 2005